FORUM
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INFLATION

A mythical candidate for the United States Senate out of Hollywood recently declared that he was "against inflation, against deflation, but for flation." Were he to run on this platform, he would undoubtedly be elected by a landslide as this phrase sums up the confusion, despair, and anxiety that shrouds the subject of inflation.

Less than ten years ago we were haunted by deflation, unemployment, low prices, and a "dollar shortage" of a totally different nature. Economists now tell us that we are suffering from a full- or over-employed economy!

The average citizen, caught in this dizzy reversal of terms, is still worried about the same problems: food, rent, clothing, savings. He has been as badgered by explanations of inflation as by high prices. From all sides, pressure groups have bombarded the public: labor blames management, "unprecedented profits," the lifting of price controls; management blames high wages, price controls, and government interference in the economic process; government blames speculators and the fifth "deadly sin"—Greed. Some economists urge greater control of the economy by the government; some, the lifting of all controls.

When all is said and done, we may be sure of only two facts: (1) the economy fluctuates wildly; (2) economic theory and practice seem to be aimed, consciously or unconsciously, at maintaining some sort of stability but have thus far obviously failed.

In an effort to get at the real causes of inflation, to substitute rational analysis for name-calling and cloud-raising, *Forum* is devoting this entire issue to the problem. We bring you a board of experts—Alzada Comstock, Broadus Mitchell, Seymour E. Harris, Raymond T. Bye, and Lester V. Chandler.

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annual contributor of articles on British Commonwealth countries to the *New International Year Book* and the *World Book Encyclopedia.*

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Seymour E. Harris is Professor of Economics at Harvard University. During the war, he worked as a member of the Policy Committee of the Board of Economic Warfare; he was a director in the Office of Export-Import Price Control under O.P.A.; a member of Secretary Hull's committee on Postwar Commercial Policy; and a member of the Social Science Research Council Committee on control of social data. The most recent of his numerous books is *The National Debt,* 1947.

Raymond T. Bye is a Professor of Economics at Pennsylvania's Wharton School. He is a frequent contributor to *Forum* and is the author of *Capital Punishment in the United States, Principles of Economics, Applied Economics, Getting and Earning.*

Lester V. Chandler, Professor of Economics at Amherst College, previously taught economics at Dartmouth and Princeton. During the war, he served with the O.P.A. as Price Executive of the Rubber, Chemicals, and Drugs Price Branch. His recent books are: *An Introduction to Monetary Theory,* 1940; *A Preface to Economics,* 1947; *The Economics of Money and Banking,* 1948.

Inflation cannot, of course, be discussed in a vacuum. Alzada Comstock sketches the changes in fiscal philosophy and policy of the past 16 years that form the background of our discussion. Broadus Mitchell sets this same era in perspective by reviewing the history of managed currency and the development of economic philosophy in the United States.

Seymour E. Harris and Raymond T. Bye oppose the Keynesian and the classical explanations of inflation in the best *Forum* tradition. Mr. Harris considers the problem of inflation in a full- or over-employed economy; Mr. Bye thinks the root of the evil is monetary.

Lester V. Chandler directs our attention to the dollar shortage and the tragic effects of our inflation upon the trade and economies of the world.

Strange as it may seem, inflation is not an unalloyed curse. Some people have always bettered their economic position in society during an inflation—debtors, farmers, and to some extent, labor. Forum brings you a debate on the provocative question: "Are Prices Too High?"

The editors of *Forum* take pleasure in presenting this analysis of inflation and trust that it will give the reader a clearer understanding of his actual position in the economy of today.

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FISCAL POLICY

By ALZADA COMSTOCK
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What happened to the balanced budget

THE implications of the words "fiscal policy" have undergone great changes in the past two decades. Twenty years ago "good fiscal policy" for most Americans meant simply an annual balancing of the national budget, in bad times as well as good, with as fair taxes for the individual and as wise expenditures for the national services as could reasonably be expected in an imperfect world. In the depression years, the phrases "deficit financing" and "pump priming" were added to our vocabularies, together with a fairly clear understanding of what they meant. Now, however, the average citizen who listens to discussions of fiscal policy—and few are given the opportunity even to listen—is bewildered by a shower of polysyllabic words signifying the New Thought with respect to the control of economic fluctuations.

In the meantime the facts concerning our national financial situation have been given us with increasing frequency and clarity. If there were a discernible relationship between the bulk of the New Thought and historical data, it would be helpful to make more of the contrast between the $43 billion expenditures of 1947 and the $3 billion expenditures of the late 1920's, as well as between the $258 billion debt of June 30, 1947, and the figure for the earlier period, which was only one-sixteenth as large. In the interval the total national income increased less than three times, according to the President's Council of Economic Advisers.

Again, if there were a closer relationship between recent recommendations and the realities of political life, it would be instructive to recall what happened to President Truman's budget between the time of its announcement on January 12, 1948, and the date of writing. The President's budget forecast the following for the fiscal year ending June 30, 1949:

	Billions
Budget receipts	$ 44.5
Federal expenditures	39.7
Surplus	4.8
National debt, June 30, 1949	246.0

Since that time the estimated revenue has been diminished by a Republican-sponsored income tax bill which wiped out the surplus, thus affecting the chances of diminishing the national debt. Expenditures, which Congress promised to cut, were promptly expanded by increased aid to veterans and by an additional $3 billion for arms. On the other hand, personal income rose in March, 1948, to $208.5 billion, a higher figure than that used by the Republicans in deciding on tax cuts possible for 1948-1949 incomes. By the end of April the Treasury was estimating that each of the constituent items of the President's budget, as summarized above, had so changed that the national debt was likely to rise about $700 million during the fiscal year 1949.

With political winds of such violence blowing, now hot, now cold, on carefully prepared estimates issued only last January, the ordinary difficulties of economic forecasting were so multiplied that any new-style fiscal policy dependent upon accurate forecasting would have become more trouble than it was worth. The more timorous fiscal thought of the 1930's, appearing as it did largely after the fact, at least had the virtue of causing no mechanical trouble.

Until the great depression hit the American economy, the general idea about fiscal policy was that a self-respecting government,

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whether federal, state, or local, balanced its budget through good times and bad. A succession of annual deficits and the covering of expenditures by repeated borrowing was evidence of fiscal mismanagement that no one could mistake or excuse. This simple fiscal policy took no thought of the effect on the national economy of the forced payment of taxes at a time when incomes were down, an omission which contemporary thought has spent thousands of man-hours in repairing.

After the end of the fiscal year 1929-1930, it became impossible to balance the federal budget, and what anybody said or thought about fiscal mismanagement ceased to matter. Income tax receipts dropped from $2½ billion in the fiscal year 1930 to $1 billion in 1932. Although laws providing for increased taxes were passed in both the Hoover and Roosevelt administrations, there was not much that anybody could do about increasing tax receipts when so many millions had ceased to receive any income at all or had seen their businesses ruined.

DEFICIT FINANCING

Deficit financing on a magnificent scale began in 1930-1931. It is instructive to recall that, contrary to the teachings of American folklore, it would be hard to beat the Republican borrowing record before 1933. Let Secretary of the Treasury Ogden L. Mills, who succeeded Andrew Mellon on February 13, 1932, tell the story as he told it in his *Annual Report* for 1932 (pp. 22-23) (Italics the present writer's):

> At the end of the fiscal year 1932 the federal revenues had been cut approximately in half as compared with the four years ended with 1930, and expenditures had been greatly increased by the *vast program of emergency relief* undertaken to meet the extraordinary circumstances with which the nation was confronted. . . . As a result, we closed the fiscal years 1931 and 1932 with large deficits. . . . Increases in the public debt as a result of the deficits of 1931 and 1932 have about offset the retirements from surplus receipts *over the preceding eleven years.*

Mills was speaking of a year, 1932, when the government borrowed to meet 58 per cent of the budget, a record that the New Deal never broke, although it approached it in 1936, when borrowing covered 55 per cent of expenditures. In dollars borrowed, however, the Roosevelt administration's annual average in the 1930's was almost exactly the amount of the Hoover administration's 1932 borrowing ($2,900,000,000).

Looking back from 1948, it can be plainly seen that the practical necessity of deficit spending was not yet fully sanctified by the *ex post facto* ethic so characteristic of the Anglo-Saxon mind. Secretary Mills was obviously uneasy about the facts he was obliged to reveal in his report for 1932. "I must continue to urge," he said, "as the Treasury Department did a year ago, that the Budget be brought into balance at the earliest possible date."

In the first half of the 1930's deficit spending theory—which in those days was no theory at all, but a simple statement of the fact that if you can't meet necessary expenses from income you'll have to borrow—might be said to be in the adolescent stage. The New Deal, which had even more liberal ideas about public spending for the public good than were represented by Hoover's "vast program of emergency relief," was to bring it to maturity.

At this stage the plan of "pump priming" entered the picture. Perhaps it seemed simply horse sense to try to get money into the hands of consumers so that they could give merchants and manufacturers a little practical encouragement. Perhaps Alvin Hansen's long-term mission of persuading the country to get this done by undertaking clearly-needed public improvements seemed sensible in Washington. Perhaps John Maynard Keynes' conviction that when private enterprise is sluggish the government had better get to work to fill the gap for the sake of the health of the whole economy (Keynes was never interested in public finance proper) influenced the White House. At any rate, public spending on a scale unprecedented in peace-time was undertaken, and the "theory" required to justify it followed along behind.

The medicine was pretty slow in affecting the disease. As the depression lengthened, deficit spending had to have still further justification and, as a result, proposals for the

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"cyclical budget" developed. Believers in the cyclical budget argue that because budgets should not (they meant *could not*) be balanced in long periods of lean years, taxes should be well above expenditures in good years so that the accumulated debt could thus be paid off.

This simple description of what is done anyway—with the exception of the fact that debts are rarely paid off because of their great sticking power—had no news value even for pre-New Deal Republicans. Secretary Mills had something of the sort in mind when he said in the report quoted above that during the 11 years ended June 30, 1929, "the government had in effect accumulated a reserve, which could be drawn upon in lean years, and which fortified the position of the federal finances."

Until our energies were absorbed by World War II, the hot and partisan debates over deficit spending were the most violent of all the arguments over the policies of "That Man in the White House." The spectacular achievements of the Hoover administration along the same line were curiously neglected by both sides. When the war had taught us what bad news really is, tempers began to moderate and more tolerant comments appeared in unexpected places. In the January, 1944, *Monthly Letter* of the National City Bank of New York the change of viewpoint was calmly surveyed.

> In financing depression spending [said the writer] few economists and experts are now such financial purists as to insist that costs be met entirely out of taxes. . . . Everyone recognizes the obligation to extend help to the needy in periods of unemployment, despite differences of opinion as to whether this should be a federal or local responsibility. Most people likewise recognize the need for government support in tiding over key situations, where time is needed to make adjustments in orderly fashion and where breakdowns might have serious and widespread repercussions.
>
> Finally the government could help a great deal by so scheduling public works as to hold projects on the shelf when ordinary business is active, and bring them forward in times when business falls off. Such a policy would be useful both in avoiding accentuation of business peaks and in providing substantial employment and purchasing power in the valleys. It would also save money, in that projects could doubtless be carried out at less cost in periods of business slack.

Werner in *The Indianapolis Star*

"Better to Measure the Door First"

While the war was on, the question of financing was the least of our worries. Even a debt that was far beyond anything of which we had ever dreamed provoked relatively few lines of newspaper comment. Since the war ended, few of the people who spoke so violently against the increase of the national debt in the 1930's have lifted their voices or used their votes in an attempt to effect any considerable debt reduction. An exception should be made in the case of the National Association of Manufacturers, in whose federal budget study published at the end of 1947 there is recommended a minimum annual allowance for debt reduction, with a further explanation as follows:

> This prospective margin of $3 billion for debt retirement would adequately fulfill the N.A.M. recommendation that a minimum annual payment of $2.5 billion should be made on the debt, plus savings in interest charges. Under a schedule of this sort, requiring an appropriation of $7.5 billion annually for interest and debt retirement, the present debt would be cut in half in less than 40 years and retired completely within 58 years.

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Worry about depression—or, better, about harmful effects of business fluctuations—has now been substituted for worry about the debt, according to the evidence of most other research bodies and vocal individuals. The maintenance of economic stability has become the goal of proffered fiscal policy. A new type of treatment, much of it reaching back to the theories of Lord Keynes, has come into flower.

Unfortunately few of these discussions can be understood by the general public. One of the happy exceptions is the Committee for Economic Development's *Taxes and the Budget: a Program for Prosperity in a Free Economy,* published in November, 1947. The N.A.M.'s budget study mentioned above is excluded, for it contains little more than a series of devices for reducing expenditures.

The C.E.D. report, which was prepared by a subcommittee on taxes, of which J. Cameron Thomson was chairman and Beardsley Ruml a member, has two basic ideas: long-term planning and a self-regulatory, stabilizing budget policy. The committee discarded two alternative budget policies in developing its own, which is described and argued for in simple, understandable terms.

The first budget policy to go into the discard was the annually-balanced budget policy popular before the depression, which would keep government revenues continuously equal to, or in excess of, government expenditures, regardless of economic conditions. This is criticized in part because of its effect in bringing heavier taxes in time of depression, its impulse towards government extravagance in good times, and its irregular and unpredictable variations in tax rates with their unsettling effects on business and personal planning.

The newer managed compensatory budget policy, which would cut taxes and increase expenditures whenever employment is judged *about to be* below a high level, in order to prevent the forecast from becoming true, was criticized for its dependence on business forecasting and the probable, frequent, and unsettling changes in tax rates which would almost certainly be required in its execution. This fiscal policy is the esoteric one with the Keynesian roots, the adherents of which have so far felt little obligation to win ordinary friends or influence common people.

The C.E.D. itself proposes that tax rates should be set to balance the budget and to provide a surplus for debt retirement at an agreed high level of employment and national income. Having set these rates, "leave them alone unless there is some major change in national policy or condition of national life."

For the rest, the C.E.D. report, using enough factual material to keep the air from becoming rarified, surveys the essentials of our existing tax and expenditure structure, arguing in all cases and in summary for stability of policy. It envisages a growing population and rising productivity in a free economy that will be both dynamic and stable, with the bulk of the planning left to individual business men, farmers, and workers but with a certain amount of government coordination.

COMPENSATORY THEORY

The compensatory theorists were heard from in considerable numbers at the December, 1947, meetings of the American Economic Association in Chicago. The most convinced members were heard to say that "adjusting the size of deficit or surplus is the core of compensatory finance" and that "the required compensatory effect may be accomplished by acting upon the level of public expenditures or upon the level of tax rates." (We trust it is clear that such action should be taken when the forecasts indicate that business is about to go down or up.) In the meantime such expressions as "built-in budget flexibility" and "automatic stabilizers" were bandied about pretty freely.

How Congress could be persuaded to build in the stabilizers, or to take suitable action in case the building were imperfect, was inadequately discussed, in view of the Congressional shifts of policy in the early months of 1948. On the other hand, the economists showed a clear recognition of their over-dependence on the hazards of business forecasting. They were not far from saying themselves, as the C.E.D. report put it, that the compensatory system depends for its stabilizing effect "upon an impossible accuracy in forecasting economic fluctuations" although they were further from admitting that it also requires "an impossible speed in making fiscal decisions and taking fiscal action."

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Although the temptation to make merry with the academic verbiage of the professional economists is almost as great as that to have sport with the nineteenth century pedestrianism of the N.A.M., it is granted that the former are at grips with the chief problem of our peace-time economy: harmful business fluctuations. They have taken fiscal policy out of the enclosure where it was bounded by the Treasury's income and outgo sheets and forced it to live in the whole economy, with the wholly praiseworthy aim of making our country a happier and more prosperous one.

Such programs as that of the C.E.D. have, however, two advantages at the moment. In the first place, they risk less for an economy that has already suffered grievously from bad guessing; and this means not only the Great Depression but the minor trouble of 1946, when the government took anti-deflationary measures because the economists forecast depression, and actually things went the other way and the whole policy turned out to be misguided. In the second, their advocates are taking a lot of pains and spending a lot of money to get the general public (which includes Congressmen) to see what they are driving at. It has required a good many decades to learn that democracy begins at the bottom, and not all of us have yet become convinced.

Mr. Bronson died very suddenly, and an important business letter was left unmailed.

Before sending it off, his secretary, who had a passion for explanatory detail, added a postscript below Mr. Bronson's signature:

"Since writing the above, I have died."

—*Journeyman Barber*

Bobby, age five, lay on the floor looking at the ads in a magazine. All at once he jumped up excitedly. "Mother," he exclaimed, "when I get to be a big man, do you know what I'm going to buy for you?"

"No," answered his mother. "What?"

"I'm going to buy you an electric iron, an electric icebox, an electric stove, and an electric chair!"

A client, who was tired of his lawyer's technical language, said to him: "See here, when I give a man an orange, I say 'Have an orange.' But what do you say? You put it in writing like this: 'I hereby give and convey to you, all and singular, my estate and interest, right, title, claim and advantages of and in said orange, together with all its rind, juice, pulp and pips, and all rights and advantages therein, with full power to bite, cut, suck and otherwise to eat the same or give the same away with or without the rind, skin, juice, pulp or pips (and or any or all of them) anything thereinbefore or hereinafter or in any other means of whatever nature or kind whatsoever, to the contrary notwithstanding.' "—Herman W. Steinkraus, *Vital Speeches*

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The battle of men
vs. money

MONEY MAGIC IN AMERICA

By BROADUS MITCHELL
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MANAGED currency in principle and practice has long been familiar in America. That is, if we use the term loosely to mean deliberately induced expansion and contraction of the media of exchange. In colonial times and for a while afterward the idea was as crude as the hand printing press—the impulse to put the public treasury in pocket by printing money, thus keeping unpopular taxation at a minimum. The Revolution supplied numerous instances, local and continental, the most notable being the act of 1780 providing for the exchange of $1 of "new tenor" notes for $40 of the old. The well-intentioned limitations thrown about the new issue could not mask the fact of repudiation, nor more than temporarily halt the swift depreciation.

After the Revolution the paper currency continued in anarchy and would have done more harm except that men, so far as possible, pushed it aside, dealt in barter, or clutched at foreign coins. The attempts of certain states to reach into pockets, instead of summoning the printer, produced mass protests, especially from indebted frontier farmers. The most conspicuous case was the rebellion of 1786 led by Daniel Shays in Massachusetts. Here appeared the hostilities which became confirmed in the long series of currency controversies—rural districts against the towns, West against seacoast, laborers against capitalists, and, of course, borrowers against lenders.

What the country saw was farmers with pitchforks intimidating courts and attempting to assault the government arsenal at Springfield to supply themselves with arms. But the mob and military aspects of the uprising were less lasting than the economic contest with prominent political overtones. Debtors had taken democracy for an ally. Local self-determination was pitted against central sovereignty. Daniel Shays, though sent scampering into exile by the rout of his forces at Petersham, in effect was ever-present at the Philadelphia convention of 1787 and helped write the Constitution along with Randolph, Madison, Paterson, Hamilton, and the rest. Solid men embedded the doctrine that in the future no state should "emit bills of credit" or pass any law "impairing the obligation of contracts."

The new national government with its fiscal measures, however, swelled the political clamor of the pecuniarily distressed. Western Pennsylvania did not have the town meetings of western Massachusetts, but frontier distillers, a jug of red-eye in one hand and a rifle in the other, could turn militia musters to the same account of popular recalcitrance. The federal liquor excise took scarce currency from the over-mountain districts. And for what? To allow the national power—stern and distant—to become the universal creditor by assuming the debts of lenient states. Fifteen thousand troops marched westward under President Washington, and a hundred leaders of revolt were yanked eastward for trial and sentence before the Whisky Insurrection of 1794 was finally quelled.

The ill winds of debt and depression did blow good. Popular protests against contraction of the currency in one form or another, when they could no longer depend on ac-

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quiescence of weak state governments, used violence. But armed objection was put down, and there was no doubt that law would prevail. This called for thought, reason, and argument—in a word, for a theory of monetary policy. America owes its understanding of the principle of managed money less to closet philosophers and responsible statesmen than to agrarian declaimers. Doctrine came from hard pressed, ambitious demagogues.

Alexander Hamilton, for a decade before he became Secretary of the Treasury, was fully aware of how to employ the media of exchange to assist national prosperity. Recent inquiry has revealed, however, the extent to which his individual insight was aided by his knowledge of foreign experience and expedients. Few of his contemporaries understood the economic springs of his funding system and his Bank of the United States. For example, as inquisitive and informed a man as Edward Carrington, when asked by his correspondents for an analysis of these proposals, confessed himself largely ignorant and confused. He and others did not miss the political implications in strengthening the central government, but the economic power in these fiscal and financial institutions was lost on them. Peletiah Webster knew more, but his writings were for the select.

One of the first who combined economic penetration and a talent for propaganda was Matthew Carey, the Philadelphia bookseller and tireless advocate of means of producing national prosperity. After long practice as champion of internal improvements, protective tariffs, and strong central banks, this ardent and articulate little Irishman came into his own with the War of 1812. Organizer and prolific pamphleteer, he recognized that the wealth of society had its seat in designs of government and the energy to put them in force. The new national stirrings brought by the second conflict with England and sharpened by the panic of 1819 helped him to recall the country to the policies of Hamilton. He rejected laissez faire and purposefully forged instruments for increasing national economic capacity, performance, and satisfaction. To him poverty was a challenge to legislative management.

His son, Henry C. Carey, elaborated and extended the thought which supported the father's practical proposals. Henry C. Carey, as the central figure in a creative group of publicists, did more than others to establish an American school of political economists. Our huge and varied resources and ingenious population taught him that for the indefinite future we might expect increasing, not diminishing, returns from economic effort. In this mood of optimistic reliance upon social contrivance, money became for him not the arbitrary arbiter of economic fortunes but the handmaiden of accomplishment. His money was not gold, an inscrutable deity to be placated. It was paper, a creature of social authority. The amount of money in circulation at any time was to be controlled with wisdom, but the economic process in his hands became rational, and success did not depend upon apprehensive star-gazing. As with other economic planners who have laid profane hands on the golden idol, business depression, particularly that beginning in 1837, goaded his thoughts. One of his associates, Stephen Colwell, refined the doctrine, but Henry C. Carey laid the foundation for subsequent proposals of monetary management in the United States. Little or nothing new has been added to his proposition that money is properly politically created for economic ends, and ought to have no value outside of governmental policy.

Despite the fact that the dominant school of thought has long represented Americans as free-willers, private enterprisers, each ready to take the chance of success in an economic battle-royal, our countrymen have shown a strong bent for planning, for making constitutions, for fashioning experimental models. System holds a fascination, with an abundance of statutes preferred above the common law. Unselfish natures, if hampered by untrained minds, are apt to seize upon formulas. The more an economic inventor elaborates his device in mechanical detail, the less serviceable it is likely to become. Money has always been a favorite material of economic gadgeteers. During the period of the National Recovery Administration, 1933-35, the entire time of one staff man was consumed in examining schemes submitted by members of the public for ending the depression, and by far the

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largest part of these proposals involved manipulation of money. After other credulities are discarded, money magic exerts its appeal. The simpler the conviction about money and the more intricate the application, the quicker is the remedy in winning converts.

Josiah Warren, who died at a ripe age in 1874, occupied much of his life in urging and trying to demonstrate his plans. He invented a lard lamp which he manufactured in Cincinnati, and later devised a roller printing press and an improved method of stereotyping. But he forsook all this when he heard Robert Owen lecture on the New Moral World. Warren went to New Harmony, was afterward the co-worker of Robert Dale Owen and Fanny Wright, and started his own model community, "Modern Times," on Long Island. Warren thought money, maliciously restricted in quantity, was the cause of high interest, thwarted enterprise, unemployment, and poverty. His labor theory of value was familiar classical doctrine, and his store in Cincinnati—on the Owenite model—exchanged goods in proportion to labor cost. In his *True Civilization an Immediate Necessity* (Boston, 1863), he blamed limited money as the artificial means of reducing production and offending equity.

Josiah Warren was less known in his own day than in ours for he now appears in the histories as a rare example of the native American anarchist. His recommendations were too far removed from the economic practices of the day to have influence with his contemporaries, but he made a more tangible contribution to the cooperative movement. Warren's contemporary, Edward Kellogg (1790-1858), came far closer to anticipating later proposals and public policy. Kellogg was a Connecticut Yankee who became a successful wholesale dry goods merchant in New York City. His business failed in the panic of 1837 because of his inability to make collections. After a short career in real estate in Brooklyn, he retired with a burning desire to explain his system for abolishing depressions. His pamphlet, *Currency—the Evil and the Remedy,* was published in 1843; in various forms it went through numerous editions and was given wide circulation partly through the efforts of Horace Greeley.

Kellogg, excoriating the usurers and banks which brought on business collapse and unemployment by making currency scarce, promised "the time will arrive when the oppression will be so great and the suffering so intense that the populace will rise and in their indignation destroy . . . . cities and villages to their foundations. . . . . The power of this nation is in the hands of the people: let them use it lawfully, and the result will be certain." In common with many others at the time, who had been the victims, as they believed, of bank abuses, Kellogg held that the issue of money of all kinds must be exclusively a function of the federal government. The same distrust of banks found expression in the Sub-Treasury Act of 1840 for collecting and paying out public funds in specie, but Kellogg was intelligent enough to know that paper money, though adequately secured, was a necessary part of the currency.

FEDERAL SAFETY FUND

He proposed a Safety Fund operated by the federal government, issuing legal tender notes bearing two per cent interest payable semi-annually in gold or silver coin. The notes would be loaned on bonds and mortgages at three per cent but particularly to states and other political subdivisions for such public works as the enlargement of the Erie Canal. By this method workers would receive employment and purchasing power and the community would get permanent improvements without relying on the caprices and meeting the high interest charges of foreign investors. More than twenty years later, during the Civil War, the government did issue short-term bonds bearing interest and serving not only for investment but for currency.

But the issue of greenbacks as a principal means of financing the war came closer to Kellogg's plans. The political movement to maintain the greenbacks in circulation in order to help farmers, workers, and small businessmen drew some of its inspiration from Kellogg's propaganda.

The 30 years from the end of the Civil War to the defeat of William Jennings Bryan for the presidency in 1896 witnessed a running fight over the quantity and character of the

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currency. The pervasive and protracted contest between advocates of cheap money (paper or depreciated silver) and dear money (redeemable in gold) cannot be understood without reference to the economic, social, and political changes that were occurring in American life. Four depressions—major ones in 1873 and 1893, and lesser slumps in 1866 and 1884—intensified the grievances of farmers and industrial workers and solidified the counter-campaign of bankers, investors, and major enterprisers. The prairie states had been rapidly, even prematurely peopled by the Homestead Act, land-grant railroads, and a swelling foreign immigration. These western farmers were absolutely dependent upon the railroads, grain elevators, and credit sources which exploited them. The Patrons of Husbandry (Grangers), founded in 1867 and reaching peak power in 1875, embodied vehement protests against falling prices, rising and arbitrary freight rates, control of the West by the industrial and financial East, and monopoly in many forms.

Industrial workers found their former small employers superseded by large-scale corporate enterprises which beat down wages by the introduction of machinery, women, and immigrants. It was natural that the National Labor Union, founded in 1866, with a small and loose membership, should progressively devote its efforts to broad reform proposals. The Civil War had been won by free labor for free labor; the frustrations which followed the national victory aggravated the antagonism of "the producing classes" for those held to live by the labor of others. As the possibility of the escape of the individual to the physical frontier waned, mass political organization to secure legislative remedies increasingly appealed to workers on the land and in the cities.

In the South the poor white people, particularly of the upland districts, revolted against the traditional political domination of their states by the large planters who had enjoyed undue representation on the basis of large Negro population in the more fertile areas. The leaders of these resurgent whites understood all of the arts of popular appeal and whetted hatreds against aristocrats and their former slaves. They were ripe adherents of the several movements for more abundant money, such as the Independent (Greenback) Party of 1875 and the People's (Populist) Party of 1892.

Every variety of reform proposal, from the most needed to the most fanciful, flourished in the generation after the Civil War. While the causes of this efflorescence were many, recurrent depression was the main one, and for the suffering which depression brought to the masses of the people, an ampler money, raising prices, and reducing interest, seemed the most obvious remedy. On the other hand, creditors fought inflation in order to maintain the value of their claims, while big industrialists and investment bankers demanded convertibility of all forms of currency into gold to be able to attract foreign funds for railroads, land speculations, and rising manufactures.

Two laws of Congress became bulwarks of the conservative propertied interests. The second in point of time was the Resumption Act of 1875 which provided that four years later the government would begin to give coin for greenbacks. This focused previous greenback agitation in the demand for repeal of the resumption provision, but by 1879 the long depression was coming to an end, redemption was accomplished without fall of prices, and inflationist hopes, so far as they were based upon greenbacks, petered out.

FREE SILVER

The other law which buttressed the conservatives was to them a fortunate accident. In 1873 the standard silver dollar was dropped from the coinage. At this time the metal in the silver dollar was worth three cents more than that in the gold dollar. No silver had been brought to the mint for coinage into dollars for a long time, as the mint ratio of 16 parts of silver equalling one part of gold, established in 1834, had generally undervalued silver. The omission of the silver dollar caused slight debate. Almost directly thereafter, however, from a remarkable conjuncture of circumstances, silver became rapidly cheaper until it was worth half as much as before. The Resumption Act promised to redeem greenbacks in coin, without specifying whether the coin was to be gold or silver. If the silver dollar could be restored to the coinage at the old ratio of 16 to 1, and silver dollars were

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used in the redemption, this would prevent greenbacks from rising in value, or would tend to keep prices up in accordance with the interests of debtors.

And so "free coinage of silver at 16 to 1" became the popular cry. This slogan became shriller as greenback hopes were relinquished and the value of silver continued to fall. The depression of 1893, after preliminary skirmishes, brought on the main battle. Much that appeared in the eloquence of Bryan as a presidential candidate on the free silver ticket in 1896 had been dramatized for the country in the march of "Coxey's Army" from Ohio to Washington in 1894. In Jacob S. Coxey's analysis of the causes and cures of the crisis appeared arguments made familiar by half a century of discussion—among these was the labor theory of value and the proposition that "money is an idea of Congress enacted into law . . . . it is a legal order for goods, and never should have . . . . any value in, or of, itself." Further, interest was usury and the bankers fleeced the government and the people. Congress, urged Coxey, should issue legal tender currency to be loaned through government banks to individuals at a low rate of interest called a tax, while other loans should be made for public works to rescue the unemployed, and for nationalizing railroads and communications.

Many rushed to refute the money heresies, whether of dishonest silver or paper with even less intrinsic value. One of the most effective of the orthodox champions was the journalist Horace White, whose *Coin's Financial Fool* and many other writings and speeches exposed fallacies and sought to discredit emotion. White and David A. Welles argued that the long downward trend of prices was not due to currency contraction, but to increased facility in producing and transporting goods. At this time two previous acts for limited purchase of silver by the Treasury, and the renewed silver crusade spurred all gold forces to their utmost exertions to win the election. Republican success was decisive, and the Gold Standard Act followed in 1900.

Until the New Deal came to power in 1933 no major figure in the history of American politics was more noted for a sound heart and a soft head than William Jennings Bryan. He had been set down as hopelessly shallow and specious in his economic reasoning. Now suddenly inflationist measures more drastic than any Bryan had ventured were presented to Congress in the Thomas Amendment to the Agricultural Adjustment Act with administration mandate. It is hard to compare the crisis of the 1890's with the crisis of the 1930's. Much had happened to the international gold standard in the years between. In the earlier period, the depression in this country occurred under a Democratic president, in the later, under a Republican. But when all is said and done, the New Deal efforts at inflation—departure from the gold standard, bimetallism with silver purchase, provision for fiat money, Reconstruction Finance Corporation loans—gave dignity to a long line of champions of man against money. While the attempted inflation did not cure the depression, the gold standard—once a sovereign, then a shibboleth—became a mere superstition. Roosevelt had enshrined the policy of managed money and Lord Keynes had his devotees in every government office and university classroom.

We suggest that the next national monument be one to the unknown politician.

—Banking

When a flood washed out the railroad line to a small city where he was scheduled to make a campaign address, a vice-presidential candidate telegraphed the committee chairman: "Cannot arrive on time. Washout on line."

He was startled to receive a telegraphed reply advising: "Never mind wash. Buy another shirt at our expense and come anyway."

—Edward Trinneer, *Tracks*

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A call for controls

FULL EMPLOYMENT: *Pitfalls*

By SEYMOUR E. HARRIS
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IN the depression years of the 1930's economists almost universally craved for the period when employment would be full and the unemployment problem would be licked. Full employment indeed became the economists' Utopia. Looking back over a hundred years with frequent interstices of unemployment, and having observed unemployment which cost the country several hundred billion dollars in the 1930's, economists—and especially those in this country—mobilized all their resources to find a way out of the quagmire of unemployment. No longer were we to have long periods of demoralizing unemployment and the wastages which accompany unemployment; no longer were we to tolerate breadlines and physical demoralization.

The war made it possible to put millions of the unemployed back at work and enlisted the support of millions of workers who were not ordinarily members of the labor market. What seven years of New Deal policies had failed to achieve—a full-employment economy—the war was able to bring about. Since 1940 this country has experienced a record level of nine years of high employment and even over-employment. The explanation is, of course, the large artificial demand created by government spending, demand in no small part supported by money manufactured for the purpose. Both New Deal history and war economics have taught this country that by the manufacture of money unemployed resources may be put to work. In the post-war period the expected decline did not materialize, the explanation in no small part being a large backlog of demand resulting from the war and the heavy drains upon the American economy resulting from impoverishment abroad. Now in 1948 the combination of the European Recovery Program and rearmament promises to keep demand at a high level for years to come and, therefore, promises to exclude large amounts of unemployment in the years to come.

At last we have experienced years of full employment. Economists and others are not any happier, however, over the problems raised by a full employment economy than they were by those posed by an under-employed economy. Each type of economy brings problems of its own. There is no substitute for good management. In the under-employed economy the problem is one of wastage and of maldistribution of a particularly vicious type, since the shortages of goods and services are concentrated especially on those who suffer unemployment. In the over-employed economy the problem is also largely one of maldistribution, but it is not so heavily concentrated on a particular group as in an under-employed economy. At least minimum standards of living are assured all who are willing and able to work, which is not true in a depression economy. Nevertheless, a large part of the population with low incomes and in positions that do not yield incomes which respond to rising prices suffer greatly in periods of high activity. In the full or over-employed economy the country suffers also from all kinds of distortions. For example, incompetent businessmen earn large profits and inefficient workers, who produce relatively little, are hired. For the amount of effort put into the jobs the output remains relatively small. That explains in part why, in periods of intense demand and capacity production, man-hour output does not respond as well as might be expected. In short, in the over-employed economy serious problems of maldistribution develop, and the economy does not yield the goods and services that might be expected in

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view of the level of output and the length of the working week.

The most serious problem raised by the over-employment which prevails in so many countries is that of inflation. It is now clear that as output expands beyond a certain minimum amount there is a tendency for prices to rise—and long before full employment is attained. Labor finds itself in a strategic position once demands for its services rise; and other owners of wanted resources are also in a position to impose demands. As a result, prices tend to rise. Furthermore, once output expands beyond a fairly high level, bottlenecks appear and productivity tends to decline, with a resulting rise in *real* costs as well as in costs per unit of output associated with higher unit prices. Inflation is then well on its way.

It is well, however, not to blame the full employment economies for all the price rises that prevail in the world today. As a matter of fact, in the countries where price rises have been unusually high, the explanation is not so much full employment or over-employment as it is the ravages of war and the unavailability of scarce materials. Workers who are unable to convert their wages into consumer goods will not produce. Countries that cannot obtain dollars are unable to satisfy their needs for capital to replace worn-out or destroyed plant and machinery, with the result that their costs are high and their output is low. In many of these countries labor is not fully employed.

Economists everywhere are faced with the problem of what to do about inflation, and particularly the brand of inflation that accompanies full or over-employment.

Inflation, of course, is caused by an excess of demand over the supply of goods available at current prices. In order to deal with the problem it is, therefore, necessary to cut down excess demand, or increase supply, without a corresponding rise of demand. There are various approaches to this problem of removing excess demand. The first, of course, is a direct attack on incomes. The government, for example, may restrict wages, thus containing demand for goods, or may restrict rents, or possibly put a ceiling on profits. Numerous countries have had recourse to measures of this kind: the United States during the war, the British in recent years as well as during the war. In democratic countries wages tend to rise more than the cost of living. That does not mean a rise in the standard of living; for if war armaments and reconstruction require one third to one half the output of goods, obviously the standard of living of the masses is likely to suffer. Through rationing or increased taxes, the government can depress the standard of living even though incomes rise more than the cost of living. In France, however, real wages, corrected for the increase in the cost of living, are at the present time substantially below pre-war.

It is not, however, ordinarily easy to control wages in a democratic society. Continued payment of high wages accompanied by restrictions on the spending of these wages generates less opposition than keeping wages down through direct controls on incomes paid. Even the Russians discovered the attraction of incentives; and in receiving high money wages, the public thinks that it is better off than it really is and is inclined, therefore, to work harder than if wages were stabilized. Of course, high wages may be carried too far, as is evidenced in current economic experiences on the continent of Europe. Workers have learned that it is not worth-while to work a full day if they are not able to convert their currencies into goods. Therefore, they either work less than a full day, obtaining enough cash to buy what is available to them under the rationing system, or else they tend to crowd the unproductive occupations where they can make large profits in short periods, for example, in the blackmarket.

Another approach to the problem of inflation is to allow the public to obtain high income but to use governmental powers of persuasion and coercion to force the public to give up part of its inflated purchasing power. Tax policy is, of course, the fundamental facet of this particular approach; and it is usually supplemented by savings campaigns. In periods of excessive demand it is the job of government to cut demand by raising taxes. Government should also spend as little as possible, thus reducing its contribution to the inflated demand, but pruning of expenditures should be consistent with broad, national objectives. In view of the validity of this theory that requires increased taxes in periods of high

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demand and reduced taxes in periods of deficient demand, the tax reduction bills of 1945 and 1948 may be considered a trading of correct public policy for votes. These measures put more money at the disposal of the public, when the government should have increased the amounts taken from them. By supporting this perverse policy, the United States government contributes to inflation.

In other countries the attack on inflation via monetary and fiscal policy has not generally been very successful. A number of countries have used what has come to be known as the "monetary purge" as a means of dealing with the inflation problem. The Russians recently carried through a successful program of ridding the country of excess purchasing power by depriving the public of a large part of its cash holdings. Other countries, e.g., Czechoslovakia, Belgium, have also indulged in this form of monetary capital levy, and there has even been serious talk of a similar levy in France and the United Kingdom. This is one of the most effective ways of dealing with the excess purchasing power that accumulates after years of inflation and budgetary deficits; but it also arouses the greatest amount of opposition and is unfair as between those who have primarily cash assets and those who hold primarily real estate and non-liquid assets. Other serious difficulties will plague governments having recourse to drastic measures of this type.

Failing to deal with the problem adequately through income controls and through effective savings and tax programs, the government has the alternative then of allowing inflation to run its course, with disastrous effects on the economy and upon the morale of the nation, or else to use controls of various kinds. The greatest differences of opinion on the anti-inflationary front stem from differences concerning the advisability of using controls. Many who would like to see inflation contained are fearful of controls in peace-time as an entering wedge for a planned economy. It is, moreover, quite true that once controls are introduced the tendency for controls to proliferate grows. Yet in markets that are scarce as part of the result of waging a great war, there is much to be said for limited controls which need not become universal. For example, in markets that are short of iron and steel, petroleum, timber and grain, under the impetus of the E.R.P. and rearmament, we support an allocation system which excludes non-essential demand and allows those who have special claim to these goods, free access to markets without sufferance of the competition of non-essential buyers. An allocation system in the most vital markets which are short of supplies may contribute greatly to the control of inflation and yet may not require the broad degree of regimentation that wartime controls have required. There can be little doubt but that the failure to use controls more courageously and extensively in post-war United States and also in France account in no small part for the dangerous inflationary situation in both of these countries. In the United States in particular, pressed by the demands of the military and the European Recovery Program, a moderate degree of control might do a great deal to neutralize the inflationary effects of these programs and might also help to carry them through.

In the over-employed, in the excess-demand economics of today inflation should not be allowed to run its course. Strong measures are required which might include income control, fiscal policy, and to a limited degree, at least in this country, other types of control.

In the years to come, the inflationary dangers are likely to be stronger than over the last generation. Labor unions are more powerfully organized, as are the farmers and business. Each group is disposed to yield to the demands of the others because in economies over-employed for years, serious shortages prevail. They can all, moreover, milk those who are not well organized, e.g., teachers, pensioners, unorganized laborers. Any group strategically placed can hold up the economy. A full employment economy may well prove to be a boomerang unless labor, agriculture, and business leadership show more restraint and a greater interest in the public welfare; unless Congress and the executive show more awareness of the potency of fiscal and monetary tools available; and unless Congress is prepared to abandon its white-or-black attitude towards a free versus a controlled economy. Fanatical opposition to controls in dangerously deficient economies may cause much trouble.

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A diagnosis
and a cure

WHAT IS INFLATION?

By RAYMOND T. BYE

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LET us suppose that a person becomes seriously ill, with a high fever and a bad cough. If he is a member of some primitive human society, a witch doctor will no doubt be summoned, who will conclude that the victim is possessed by an evil spirit which must be exorcised if a cure is to be effected. Very likely this witch doctor will perform some magical incantations, and perhaps a group of friends will set up a terrific noise about the sick man to frighten away the demon. In spite of these measures, the poor sufferer is likely to die. If the sick person is in a society somewhat further along the road to civilization, he will be attended by a physician who will know how to treat his symptoms, even though he may not know the fundamental cause of the illness. Ice packs may be used to reduce the fever and an expectorant or sedative may allay the cough. But since the causes are still untouched, the victim is just as likely to die in this case as in the first instance. The scientific modern way of dealing with this case would be to use diagnostic techniques to reveal the cause (which might be tuberculosis or some other infection), and then set about removing that cause by efficient treatment. By this means, the patient may be restored to health.

Popular thinking on the subject of price inflation in this country today is not much further advanced than the first of these three stages, although it goes part way over into the second. We know that inflation is an economic disease, the symptoms of which are distressing to those of us whose pocketbooks do not keep pace with prices, but we do not face the causes squarely and deal with them. We are more likely to look about for some miscreants to blame it on and try to punish or suppress them; or at best we devise a few weak measures to treat the symptoms instead of making the basic changes which would be necessary to remove the causes. Unfortunately, this applies as much to the members of Congress as it does to the man on the street. Among the evil-doers who are popularly regarded as the demons to be exorcised are profiteers, speculators, and labor union leaders. Are these parties the true causes of the trouble?

Let us make another supposition. This time we will suppose that there is an isolated small community of 1,000 persons, each of whom has $1,000 to spend in a given period of time. That makes $1,000,000 in all. Let us suppose further that there are 1,000,000 units of goods to be sold in this community in that period. If each dollar is spent only once, it is obvious that the goods must sell for $1.00 apiece. The average of prices (that is, the price level) in that community will then be $1.00. Now suppose that somehow or other the money income of each individual is doubled, but that the quantity of goods is no greater than before. There will then be $2,000,000 of purchasing power bidding for 1,000,000 units of commodities. Each recipient of the new money will try to buy more goods with his existing income, but since the goods are no more plentiful, not all of the individual buyers can be satisfied. In this situation, competitive bidding for the supply of merchandise will soon force prices upward, and they will continue to rise until the average price has become $2.00 per unit instead of $1.00. In other

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words, the price level will have doubled because the flow of money is twice as great as before.

This simple illustration gives us the clue to rising prices in a nutshell. It is simply a matter of money bidding for goods, and inflation is nothing else but an increase in the flow of money relative to the flow of commodities. If money and goods expand or contract in like proportions, the level of prices must remain constant, but if goods shrink in relation to money or if money expands in relation to goods, prices must rise; and if both goods and money are expanding, but money is growing faster, then prices again must go up. By controlling these relationships, we could maintain any desired level of prices, and that is the only way that we can stop inflation. In practice, this means that we must control the size of the money stream, for money is the active factor in this relationship. The production of goods changes somewhat, but it does not fluctuate wildly. The flow of money, on the other hand, can and does swing violently up and down, therefore, it is the heart of the problem. We have a very erratic monetary system which causes sharp changes of the price level and seriously disturbs the general balance of economic relationships.

WAR FINANCING

Now let us look at what has happened to prices in the past few years in terms of this simple analysis. During the war our government needed vast supplies of goods (ships, airplanes, tanks, munitions, uniforms, food for the soldiers) with which to achieve victory in the conflict. This meant that production had to be increased sharply, and at the same time diverted to a considerable degree from civilian to military uses. One way to do this would have been to take enough money away from the people in taxes to pay for the things the government required. Had the war been financed in this manner, prices would not have risen because the money stream would not have been increased. It would merely have changed its direction. Civilians would have had less money to spend and the government would have spent it instead. Production would have been redirected in accordance with this shift in expenditure. However, the government did not have the courage to face the popular resistance which such a policy of terrific taxation would have encountered. Besides, in order to get people to work harder and manufacturers to increase their output, it was found desirable to offer higher wages and prices. Therefore, the government borrowed money, partly from the people, but mostly from the banks. Had it all been borrowed from the people, there would again have been no inflation; for what the people loaned would have represented a reduction in their expenditures exactly equalling the expenditures made by the government. But when the government borrowed from the banks there was inflation, because what the banks did was to give the government credit to the amount of their loans, holding United States bonds as security. The government was then able to draw checks against this credit, and these checks represented an increase in money which, when the government used it in payment for goods, passed into general circulation. The result was inevitably a marked inflation. During the war the symptoms of this inflation were held partly in check by price controls. But with the abandonment of these controls after the war, the additional money in the hands of the public soon made its influence felt, and prices started climbing rapidly.

The process by which banks can create money in the process of lending is not generally understood, but it is very important for a comprehension of the inflation problem. When a bank makes a loan, the borrower does not usually receive the amount of the loan in cash. Instead he is credited on the books of the bank with a "deposit" to the amount of the loan (less the interest, or "discount"), although the only thing actually deposited is a promise of repayment sometime in the future. Now the borrower can draw checks against this "deposit," and these checks are a kind of money. The recipients of the checks deposit them in their bank accounts and then draw new checks against the deposits so built up. In this way the "check book money" originally created by the loan passes from hand to hand in payment for goods, and constitutes an addition to the money flow. This phenomenon is called the monetization of credit. When the original loan is repaid the check

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book money based upon it is cancelled, so that in a period of general liquidation there is an actual deflation of the monetary circulation—credit is demonetized. However, so long as the banks generally are making new loans faster than old ones are being paid off, there is a progressive inflation of the money stream.

We are at present in precisely such a process of credit expansion. The bank credit based on government loans during the war has not been liquidated, so that it is still in circulation; and it is being currently augmented by a large volume of private borrowing from the banks on the part of businessmen and installment buyers. As a result, prices are being forced higher and higher. The swollen money stream which is now flooding our markets is nearly three times as great as it was before the war, and the end is not yet in sight. In 1940 the actual cash ("pocketbook money") in circulation in the United States was $7,848,000,000, and bank deposits ("check book money") amounted to $31,962,000,000—a total money stock of some $39,810,000,000. On March 31 of this year the "pocketbook money" was $27,787,000,000 and "check book money" $87,800,000,000—making a total of $115,587,000,000. During the same period there has been an increase in our output of goods of only about 40 per cent. That is not nearly enough to offset so great an inflation of the money supply. That is why prices have gone up, and that is all there is to it. When three times as much money circulates against only one-and-a-half times as many goods, prices are bound to rise, and they have done it. What is more, they are still doing it, and will continue to do so unless adequate measures are taken to deal with the problem.

PROFITEERING

Now let us look at some of the demons who are being blamed for the present situation. One of them is supposed to be the wicked businessmen, whose "outrageous profiteering" has boosted prices at the expense of the poor consumers. It is true that when the price level is rising, profits go up. This is due to a number of things. For one thing, businessmen buy materials and supplies of various kinds some weeks or months before they sell their finished products. If prices go up in the meantime, their inventories appreciate while in their hands and they realize a profit therefrom. For another thing, most business is done partly on borrowed funds. Now the amount of a loan and the interest on it is fixed in money terms, so that debt-service costs do not go up during the life of the loan, while selling prices continue to rise. This yields a profit to the borrowers. Finally, businessmen are employers of labor, and usually wages do not rise quite as fast as the selling prices of commodities, so that some profits are made at the expense of labor, although that is not as true in these days of strong labor unions as it used to be. From this combination of causes, then, profits increase. But this is a result, not a cause of rising prices. Businessmen merely take advantage of the increasing money demand for their goods. They are not responsible for the monetary expansion that was initiated by the methods of financing used by our government during the war; and although they are contributing to further inflation by their current borrowing from the banks, they are innocent of deliberate intent to raise prices by so doing, because they do not understand the nature of credit monetization.

Suppose the businessmen, pricked by their consciences, refused to raise their selling prices in the present circumstances. What would happen? The automobile manufacturers have done exactly that, and the results are obvious to anyone who has tried to purchase a new car within the past two years. Buyers with swollen pocketbooks try frantically to get possession of autos whose supply is insufficient to meet their demands. All sorts of black market activities arise out of this situation, and the prices of the cars go up notwithstanding the restraint of the manufacturers. When people have more money to spend and are eager to use that money for commodities, if producers do not raise their prices voluntarily, the competitive bidding of consumers for what supplies are available will force prices up in one way or another. To try to hold them down in such circumstances is like trying to dam a flood. The dike gives way and the flood breaks loose anyhow. We would do better to stop the flood at its source.

Our system of economic arrangements is a profits system. It depends on profits for its in-

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centive. We cannot blame producers in such a system for taking advantage of conditions which inure to their benefit. To rail at them or try to restrict their profits is merely treating a symptom, instead of the cause. The cause is monetary, therefore, we should deal with that, and profiteering would then take care of itself.

Another group toward which popular wrath is directed in a period of inflation is the speculators on the organized commodities exchanges. What is a speculator? He is a person who buys or sells goods (or makes contracts to buy or sell) in advance in the expectation of making a profit from anticipated price changes. For instance, if he believes the price of wheat is going to rise, he may buy it now and hold it until the price is higher. If he believes it is going to fall, he may enter into a contract to sell it some weeks hence, believing that he can then buy it for less than the contract price and so reap a profit. In either of these cases, if he guesses right, he gains; if he guesses wrong, he loses. He is not ordinarily the cause of either the rise or fall from which he profits. He merely takes advantage of a movement arising from other causes which he foresees. Should we condemn him for so doing?

The actions of well-informed speculators are usually beneficial, not harmful, to the community. If wheat is low in price now and will be high in price later, it is because there is an oversupply in the present market with an impending shortage in the future. The speculators, by causing wheat to be bought up now for resale later, reduce the present glut and help relieve the future shortage. There is much misunderstanding about these operations.

It is true that speculators have sometimes contributed to the price fluctuations of particular commodities by manipulating the market in various ways, such as circulating false rumors, making fictitious sales, or cornering the market. These practices are justly condemned, and the government very properly takes measures of regulation to reduce them to a minimum; but none of these operations can possibly raise the general level of prices by any appreciable amount. The most that speculative market manipulation can accomplish is to raise the price of a particular commodity for a short period until the operator can profit by selling it. It is unthinkable that speculators in the aggregate can withhold a large enough portion of the total stream of commodities coming into the market to bring about a measurable rise in the average of all prices. The causes of general price inflation are monetary, and speculators have practically nothing to do with it.

WAGE-PRICE SPIRAL

Another group of supposed culprits who are being blamed for the present inflationary situation is organized labor. It is said that the unions, by using strikes and the threat of strikes to force employers to raise wages, contribute to the upward spiral of prices. Higher wages, it is alleged, raise production costs, and this compels producers to charge higher prices for their products. These higher prices, in turn, raise the cost of living of the workers and lead to fresh wage demands, so that the cycle of rising wages and prices is repeated over and over. Now there may be some truth in this explanation, but it has not been clearly established, and the matter is not nearly so simple as it seems. The workers are justified in demanding some increase in money wages to offset the higher cost of living brought about by rising prices. In so far as the wage increases do not exceed the *preceding* rise in prices, they can hardly be inflationary. In that case the workers are merely getting their fair share of the increased money flow which must already have been generated from some other source. However, it is true that wages in most industries outside of agriculture have gone up further than the cost of living. The United States Bureau of Labor Statistics' Consumer Price Index (which measures the cost of living for families of moderate incomes in our large cities) shows a rise of about 70 per cent since 1940. In the same period average hourly earnings of workers in all manufacturing industries have approximately doubled. Thus, wages in this group of industries have increased faster than prices; and the same is true of some (but not all) non-manufacturing industries. Can such an increase in wages, by raising production costs, force prices to a higher level?

We must not forget that the price level cannot rise unless the flow of money increases at

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a faster rate than the flow of goods. In the absence of an increased flow of money, higher wages cannot force prices up, because producers cannot get more for their wares if the money is not there to pay for it. The question is then, do wage increases lead to an increased flow of money? There is no proof that they do, but there is a mechanism by which such an effect might conceivably be brought about. If employers, finding that they must pay higher wages, and expecting to get higher prices in compensation therefor, go to the banks and borrow more credit than they otherwise would have borrowed, and if bankers have enough confidence in the expectation of rising prices to extend this additional credit to producers, then the money flow will grow larger and will support the higher prices. The very statement of the conditions by which this chain of causation might be brought about shows that it is what President Roosevelt would have called a very "iffy" question. Certainly the phenomenon is not as simple as it is commonly supposed to be, and in the absence of positive proof that this chain of causation does occur, it must be put down as merely a hypothesis whose truth is yet to be established. However that may be, it is clear that wage increases can contribute to a rising price level only if accompanied by monetary inflation. The immediate cause of the inflation, therefore, remains monetary in character, and it could be controlled by monetary measures alone without direct regulation of wage rates.

It should be clear from the foregoing analysis that the freezing of prices or wages, or any direct measures of price and wage control, is treating the symptoms of inflation—not the cause. The same is true of various measures which have been proposed for taxing away profits, for smashing monopolies, and for curbing the activities of speculators. Since none of these things gets at the cause of inflation, which is monetary expansion, they cannot possibly cure the condition. If we want to stop inflation, the government must be willing to stop borrowing from the banks and the issuing of further credits by the banks to private borrowers must be prevented. But these measures are not popular with businessmen who prosper by riding on the wave of inflation, nor with consumers who wish to purchase automobiles, electric refrigerators, and the like on an expanding bubble of installment credit; and when a courageous official like Marriner Eccles, who understands the true nature of inflation, proposes the kind of monetary remedies that really would control the situation, the pressure of these groups is sufficiently powerful to secure his removal from office.

Whenever we really want to stabilize the price level, there is a very simple means of doing it. It is to take away from the banks once and for all the power to expand and contract credit, by requiring them to keep 100 per cent reserves back of their deposits instead of the elastic fractional reserves that are now required. This would fix the supply of money so that henceforth there could be neither expansion nor contraction except by the action of a suitable Monetary Authority created to control the money supply with a view to maintaining business stability. Bank loans would then have to be financed out of the savings of depositors (in the same way that corporate investments are now made out of the savings of their stockholders) instead of with credit created by the banks in the very act of lending.

Even this machinery would fail to stop inflation in time of war unless the government would have the courage in such a period to finance the conflict entirely out of taxes, supplemented by bonds sold *directly to the people,* instead of paying for the war by issuing paper money or by expanding bank credit. Since it is unlikely that any government in the visible future will have the fortitude to finance a major war by such heroic measures, we must regrettably conclude that the stabilization of prices is not likely to be accomplished until wars are done away with.

Tell a little girl not to stick her arm out of the car, and when she grows up and drives she will remember the advice before making a left turn. —*Detroit News*

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THE DOLLAR SHORTAGE

By LESTER V. CHANDLER
Professor of Economics, Amherst College

Inflation effects world trade

THE persistent and acute "dollar shortage" is one of the serious problems that must be solved if the program of reconstructing world production and trade is to succeed. But what do we mean by a "dollar shortage?" In general terms, we mean that the number of dollars demanded by other countries tends to exceed the number of dollars made available to them by the United States. It is the monetary counterpart of the world's tremendous demand for real goods and services which can be found in the required amounts only in the United States. The governments, business firms, and individuals of other countries are demanding dollars in order to purchase goods and services here—not to invest here or to build up idle dollar balances. The number of dollars that we are supplying to foreign countries, on the other hand, depends on the volume of our spending, lending, and giving abroad. More specifically, the supply of dollars to the rest of the world depends on (1) our purchases of goods and services abroad, (2) our tourist expenditures abroad, (3) our purchases of foreign gold and silver, (4) our purchases of securities, both long and short-term, from foreigners, (5) our payments of interest and dividends to foreigners, and (6) our gifts to foreigners. Up to the present time, at least, the volume of dollars we have made available to foreigners in these ways has been inadequate relative to the foreign demand for them. And the acuteness of the dollar shortage in the post-war period is due not to any decline of the supply of dollars as compared with the years immediately preceding the war—the supply of dollars is considerably larger than it was before 1940—but to the great increase in the demand for dollars.

This dollar shortage cannot be explained in simple terms. Not one but many factors have produced it, and these have affected the various countries in different degrees and even in different ways. But if we consider the position of all other countries as a group vis-à-vis the United States, the basic factor in the dollar shortage is the lessened productivity of their economic systems and their resulting inability to produce enough to support both acceptable living standards for their people and an acceptable rate of reconstruction of their capital equipment. We are all familiar with the deleterious effects of the war on production in Europe and Asia—the reduced supply of food resulting from the lack of fertilizer, shortages of farm equipment, losses of livestock, the unavailability of supplies from Eastern Europe, unfavorable weather conditions, and social discontent among farmers; the reduced output of coal in Britain, France, and Germany; and the general decline of manufacturing in most of Europe. A part of the deficit in food and certain other raw materials is being met by such countries as Canada, Australia, New Zealand, and Argentina. But the United States must supply a considerable part of the world demand for even these products, and it is virtually the sole major source of supply of much-needed manufactured goods, such as fertilizer, steel, railroad and electrical equipment, and farm machinery. In a very basic sense the dollar shortage is a monetary reflection of the fact that our own economy is turning out goods and services much faster than at any time before the war while the economies of the rest of the world taken as a whole are still

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struggling to attain pre-war standards of productivity.

Though the lowered productivity of other countries is a basic factor behind the dollar shortage, other factors contribute to the problem. One of the most important of these is the loss of "invisible" exports by some countries. Britain for example, before the war, paid for half of her imports with income from her foreign investments, shipping, and insurance and financial services. Now, with most of her foreign investments gone and her shipping greatly reduced, she must seek other methods of paying for her imports. Another factor behind the dollar shortage is the inflationary pressure in most of the world. Since 1939 all belligerents and most neutrals have experienced large increases of their money supplies and money incomes. In some areas these increases have been allowed to exert their full inflationary effects on price levels. In many areas, however, the inflationary pressures have been at least partially "suppressed"; direct price controls have been imposed to prevent or limit price inflation. Under such conditions the people of those countries would offer even larger quantities of their money for dollars if they were permitted free access to foreign exchange markets.

PRICE INFLATION

Still another important cause of the dollar shortage is the price inflation that has occurred in the United States since mid-1946. Despite the fact that the dollar prices of American goods—and especially of foodstuffs and raw materials—have risen greatly, foreigners could not afford to decrease the physical amounts of goods purchased here; the goods have been essential to them and could not be obtained in adequate volume elsewhere. Nor was the rise in the prices of our exports offset by increases in the dollar prices of goods sold to us by other countries. In the first place, it is probably true that the prices of our exports rose more than the prices of the exports from other countries to us. And in the second place, since the physical volume of our exports exceeded that of our imports, the price rise enhanced the dollar deficits of other countries. There can be no doubt that our continuing inflation has accentuated the dollar shortage. Over a longer period the maintenance of a high level of employment and demand in the United States is essential to world prosperity. It is by no means certain, however, that for a time other countries would not be benefited by a moderate recession and falling prices in this country.

Many believe that another cause of the dollar shortage is the pegging of the dollar at too low a price in exchange markets relative to other moneys. By implication they suggest that controls should be removed and moneys allowed "to find their own levels" in exchange markets, or at least that other countries should depreciate their moneys in terms of dollars. The French franc and Italian *lira* are examples of such a policy. It is very difficult to evaluate the wisdom of this suggestion. It is true, of course, that the dollar would cease to appear scarce, if its price in exchange markets were allowed to rise sufficiently; at some high price foreigners would cease to demand any more dollars than were being offered for sale. But this is similar to solving a meat shortage by allowing meat prices to rise so high as to exclude most purchasers from the market. It may not solve the basic difficulty. People may still be hungry even though "demand no longer exceeds supply." Though admitting that at some stage many countries will have to depreciate their moneys in terms of dollars in order to maintain their position in export markets and to make their moneys freely convertible, I doubt that such a move at this time would be wise in most cases. I base this conclusion on a belief that under present conditions the ability of most countries to export is limited by their ability to produce rather than by the high prices of their goods, and that a devaluation of their currencies would not raise the dollar prices of their exports relative to the dollar prices of their imports. For most countries it is probably wiser at this time to limit imports and promote exports by direct controls rather than by depreciating their moneys, though this may not be true even now in some cases and over a longer period many devaluations should occur.

There is also a widespread belief that the dollar shortage is accentuated by exchange control and the lack of free interconvertibility of all moneys in exchange markets. This is

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true; to the extent that international trade is hampered by these restrictions, world production is retarded and the quantity of goods needed from this country is enhanced. But the relationships between the dollar shortage and the lack of interconvertibility of moneys is much more complex than this statement would indicate. To a marked extent the absence of interconvertibility of moneys is a result, rather than a cause, of the dollar shortage when we consider other countries as a group. They cannot make their moneys freely convertible because the supply of dollars is clearly inadequate to satisfy the demand. Moreover, the lack of free convertibility of moneys tends to concentrate the dollar shortage in those countries that buy largely from the United States and sell elsewhere. For example, Canada's shortage of our dollars is due largely to the fact that she buys here to such a great extent and sells so much to countries whose moneys cannot be converted into dollars. Britain's position is similar but much more complex.

We find, then, that the dollar shortage is a manifestation of the fact that other countries wish to buy in the United States so much more than we are buying from them. The increased acuteness of the shortage as compared with the pre-war period is due not to a diminution of the supply of dollars but to the great increase of the demand for them. The basic factor behind the shortage is that other countries are trying to consume and to use for capital accumulation a much larger quantity of goods and services than can be supplied by the diminished productive power of their own economic systems; only the United States can now provide the extra supplies that they need. The dollar shortage is accentuated, however, by the loss of invisible exports by many countries, by inflation both here and abroad, and by exchange controls.

How should the dollar shortage be solved? There is no single and simple solution of the problem. The remedies must be as numerous and complex as the causes of the shortage itself. One of the basic remedies must be a marked increase of world productivity, especially in Europe, so that a larger part of the world's requirements can be met outside the United States. A recovery of European agriculture would reduce the demand for dollars

Herblock in *The Washington Post*

"I'm Sitting On Top Of The World"

with which to buy American foods and fibers. Increases of coal production in Britain and elsewhere in Europe, increases of steel production in Germany, Britain, and France, and a general recovery of manufacturing abroad would have similar effects. In this process industrial Germany occupies a key position. If German industry is rapidly restored to its pre-war position as a major supplier of manufactured products to Europe and many other areas, the end of the dollar shortage will be hastened. But if for political, military, or other reasons the industrial recovery of Germany is long delayed, many countries must seek other sources of supplies for reconstruction, and under prevailing conditions a large part of these will have to come from the United States. This economic fact, as well as those in the field of politics and military strategy, should be considered in arriving at a solution of "the German problem."

Another basic remedy must be monetary reform. Many nations should find methods of retiring excessive supplies of their money, so as to reduce the inflationary pressure under their price levels and to permit a gradual relaxation of rationing, both in their domestic

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markets and in foreign exchange markets. Then, as their productivity increases and their prices are stabilized, countries must adjust their exchange rates to realistic levels and establish a greater degree of freedom in multilateral trade and payments.

It is clear, as was brought out in the voluminous discussions of the E.R.P., that the United States cannot alone bring about world recovery and end the dollar shortage; a large part of the solution must be supplied by other countries. They must try to establish political conditions favorable to economic activity, utilize their available productive resources fully and efficiently, pursue suitable monetary and fiscal policies, and cooperate in developing world trade. In the absence of such policies abroad American aid will prove to be more of a palliative than a remedy. It would be a serious error to believe that the United States is solely responsible for the dollar shortage and that upon us alone lies the responsibility for ending it. But it would be equally erroneous to believe that the United States cannot and should not do many things to hasten world recovery and end the dollar shortage. These remedies are of both a short-run and long-run nature.

At least in the short-run we should provide liberal loans and gifts of dollars. These dollar loans and gifts will serve a double purpose. In the first place, they will permit other countries to secure from us additional goods and services with which to rebuild their capital equipment and to prevent their living standards from falling to starvation levels. A nation can hardly be expected to recover rapidly if its workmen are seriously undernourished and if it is plagued by lack of fertilizer, coal, steel, farm machinery, railroad rolling stock, and other essentials. Our loans and gifts should not be considered as continuing charity to a family whose earning power is permanently lost, but as a recovery aid to an enterprise that has lost some of its key equipment in a disastrous fire and can be rebuilt into a successful productive mechanism. In the second place, our gifts and loans can facilitate monetary reform abroad. To the extent that governments receive dollars from us, their budgetary problems are eased, and some governments will be able to sell dollars for a part of their domestic money, which can then be retired or neutralized.

Another helpful thing that we can do, especially in the longer run, is to maintain our demand for foreign products at a high level. To accomplish this would require a two-fold policy: to reduce our tariffs and other barriers to imports, and to avoid periods of serious unemployment. Under present conditions the smallness of our imports is probably due more to the reduced productive capacity of other countries than to our barriers against foreign goods and services. But even now our trade barriers restrict foreign sales to us to some extent, thereby enhancing the dollar shortage, and the effects will become more evident as foreign productive capacity recovers. The Reciprocal Trade Agreements program should be strengthened and pushed more aggressively. Of even greater importance to continuing world recovery is the avoidance of serious business depressions in this country. Unemployed people and business firms in our economy cannot be big buyers of foreign products, and without large dollar earnings other countries cannot achieve and maintain prosperous conditions. As the late Lord Keynes stated on many occasions, the greatest contribution that the United States can make to world recovery and prosperity is to maintain a high and stable level of employment, production, and demand at home. But this does not mean that the world is benefited by continuous inflation here or by a beggar-my-neighbor policy of trying to maintain domestic prosperity by excluding imports.

Other contributions that our nation can make to the ending of the dollar shortage and the promotion of world recovery are less specific but no less important. Through the sheer force of our productive power and financial resources we have achieved a position of world economic leadership. By an appropriate use of this position we can do much to restore international trade, promote an orderly international flow of capital, restore a realistic structure of exchange rates and a mechanism of multilateral international payments, and strive to establish conditions of world peace without which full prosperity is not possible. Whether our economic power will be matched by our wisdom remains to be seen.

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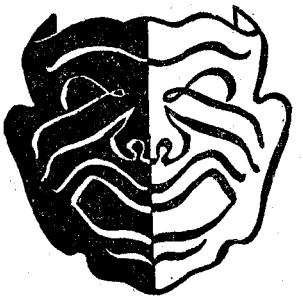
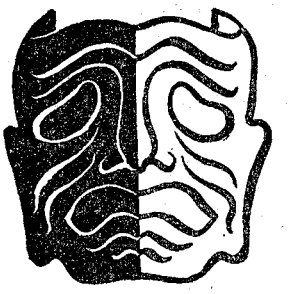


The THEATRE ARTS



by John Gassner

At the conclusion of the 1947-48 season, which ended officially by Independence Day, little is left to a reporter on the theatre, himself somewhat wearied by its intensities and fluctuations, than to sum up the results and to take note of oddments and loose threads, of which the stage is full. A brief summation would, however, reveal nothing startling: The season's most striking achievements were not indigenous, and the work of the visiting Habimah and Dublin Gate companies, the acid intelligence of Sartre's *Respectful Prostitute,* and the democratic idealism of Terence Rattigan's *The Winslow Boy* outweighed the native contributions of *A Streetcar Named Desire, Command Decision,* and the efforts of New York's Experimental Theatre.

After over five years of continuous performance, *Oklahoma* folded its side-show in Manhattan and now belongs to history. It is superfluous to repeat the statistics, to cite such facts as its playing to over four and a half million persons and ringing up over two thousand performances. More to the point is its contribution to the art of the theatre, a sizable contribution which would have been noteworthy even if it had not brought a 2,500 per cent return on its investment but which would nonetheless have failed to influence the stage if it had been a financial failure. *Finian's Rainbow, Bloomer Girl, Brigadoon, Carousel,* and *Allegro* are evidence of its pervasive influence, as are the standards of excellence to which we now expect musical comedies to adhere.

Efforts to explain the success of *Oklahoma* may well have to go beyond a mere inventory of the merits of the story, music, choreography, and scenic design; beyond even the freshness that was indubitably a commanding attribute in a jaded and shackled theatre. The play spoke for America during America's trial and tribulation. Rooted in the soil of our actual or adopted nativity, it brought the breezy spirit of the frontier to Broadway. Free and high spirited men and women, friendly people with a handshake as wide as the plains, laughing people instead of smirking sadists, strong people instead of greasepaint anemics—these were not only novelties on our musical stage but assurances, at a time when assurances were needed. We flexed our muscles with the Oklahomans, found sustenance in their clear springs, and held up our heads as they held their heads high at a time when we were still being denounced as decadent by the most decadent of European ideologists. It was as if the theatre had flung a Whitman poem in the teeth of the Horst Wessel Song, and had opposed an invincible optimism to the stench of Europe's master race. Even the Theatre Guild's discovery that a musical could have the same integration as a play, its triumph over the hodgepodge nature of routine musical comedy, was secondary to the spiritual victory of *Oklahoma.*

To those of us who customarily take stock of Broadway management and those who fancy themselves arbiters of its state of health, there was a further source of gratification in the fact that *Oklahoma* was born of the Theatre Guild, that allegedly moribund institution which was faced with actual bankruptcy, and for which spiritual bankruptcy had been predicted since 1937. And we must make no mistake about it: *Oklahoma* was Theresa Helburn's baby, and was brought to lusty infancy by her amid the jeers and headshakings of

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Broadway wiseacres. Lawrence Langner did yeoman work on the project after its inauspicious New Haven opening while Miss Helburn was laid low by illness. Faith and hard labor by these Guild veterans and their junior aides helped to shape *Oklahoma*. It was not plumped into their laps by agents. This was, then, a lesson to producers to exert something more than purse-string entrepreneurism and exploitation of others' talents; it was a lesson in creative producing. That it should have been given by the Theatre Guild, instead of some upstart organization, was all the more remarkable, as was the fact that Rodgers and Hammerstein, who had been so often identified with easy triumphs, should have taken these heartening strides.

Neither of these worthies nor the Guild rested on their laurels but continued to exert themselves in the direction they had hewn out for their talents and enterprise, so that *Oklahoma* proved to be not only an achievement but a stimulus. A salute to *Oklahoma* and its creators is, therefore, in order, and it can be given resoundingly even by those who were not unaware of a trace of synthetic naiveté and calculated sophistication in the piece, even by those for whom *Oklahoma* was far from the last word in American creativity past, present, and future.

One of the healthiest signs of our theatre will be found in the quality of the plays selected by New York's little groups for their productions, even if these are to be found a mile or two beyond Broadway's hallowed precincts. If it is argued that, after all, these are not thoroughly professional productions, there is comfort in reflecting that our off-Broadway groups are moving in the right direction. They could just as well have been tempted into cutting their cloth to the pattern of commercial slickness, as do many community and nearly all summer theatres. I am sorely tempted to recommend, even at the risk of being considered starry-eyed, that the latter could experiment with getting away from revivals of popular and frequently old-hat successes. I have a suspicion that the country-folk who support the Summer theatre would enjoy discovering the sort of drama that Broadway is too rarely in a position to offer. Such plays are just as easy to act and produce as the standard variety, once a simple scheme of production is established for them. A formal style of staging, which achieves beauty with a minimum of scenery, or the use of projected scenery against a bare stage would clear the converted cow-barns for unconventional multi-scened drama.

Be that as it may, New York has recently had two provocative and imaginative productions on its boards. One was a "living newspaper," *E Equals MC Square,* which recalls the valuable Federal Theatre ventures in this vital form of theatre. Its author, Hallie Flanagan Davis, who first produced it in her present bailiwick at Smith College, would know something about "living newspapers," having introduced them to the Federal Theatre when she headed that inestimable project. The production, directed by Monroe B. Hack, with choreography by Hanya Holm, was given at Columbia University's Brander Matthews Theatre with considerable skill. The acting was about as good as could be expected, especially while E. G. Marshall, Geoffrey Lumb, and Billie Lou Watt were on the stage. The latter is, indeed, a very versatile young actress, and her charm would have been deserving of greater plaudits if it had been expended on some other part than that of Miss Atom, a rather dubious conception of atomic energy.

The play, as the title indicates, is a "living newspaper" on the release of atomic energy during the war, the problems its control imposes, and the delightful prospect of our blowing ourselves up with our latest scientific achievement because we have once more proved ourselves too clever for our own good. This was forcibly impressed by the first scene, in which a man running away from the first bomb has his shadow imprinted permanently on a wall by atomic radiation, and by the last scene in which the planet goes to pot when atomic warfare is accidentally unleashed by means of a push-button in our underground headquarters. In between, the scenes were of varying quality and force, ranging from some rather humdrum and sometimes coy situations to effective ones like a snippet from *Wings Over Europe* and vignettes of the Lilienthal investigation.

It may well be regretted that the central metaphor of the play was not more fortunately

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conceived. The device of representing history as Cleo on roller skates and the Atom as a peppery and cute young lady may have been intended to relieve this document from tedious solemnity, but a happier invention might have achieved the same result and yet kept the play on a dramatic level more worthy of its subject matter. Something less schoolgirlish was needed to focus attention on a problem whose import and dramatic quality deserve the so often misapplied adjectives "critical" and "crucial." It is to be hoped that the present play will be regarded as a tentative essay or first edition, and will serve as a basis for a maturer treatment later on. The subject rates the effort, and the treatment may well grow in stature and competence as the theme grows more urgent.

Another indication of an enterprising spirit appeared in the Interplayers' Provincetown Playhouse production of Jean Cocteau's bizarre but nonetheless fascinating version of the Oedipus story, *The Infernal Machine.* The mixed feelings with which one could view the play may not be construed as a criticism of the worth of the enterprise. While not all the key performances were consistently satisfying, few of them were without redeeming features. Cocteau's version cannot be considered an improvement on *Oedipus Rex;* it is only one of those numerous variations on classic themes that the French fancy so much, and these generally exude a faint aroma of the classroom. Cocteau's distinction lies in his ingenious playing with his theme, which brings him closer to Giraudoux than to Sophocles. At times exasperatingly bright and skittish, it also manages to be keenly ironic, and here and there it actually adds a psychological dimension to the old fable. This is notably the case when Cocteau shows Jocasta constantly attracted to a son-image in compensation for the loss of the child she discarded upon learning that it would destroy its father and marry its mother. If Cocteau's irony is rather ineffectual, it is only because he provides a sophomoric variant on the Greek idea of fate, which says much less to modern man than the solemnity of the term would suggest. There is no instrumental value in making a fuss over fate, for irony concerning fate is bought cheap; such irony butters no life or action, it only makes us feel aridly clever and detached. Sophocles at least stirs us by rooting fate in character and allowing it to undo a man of convincing eminence rather than the milksop Oedipus that Cocteau created.

In conclusion, note may be taken of one experimental advance in the new dramatic medium of television, which has hitherto offered nothing eligible for critical evaluation. A recent televised dramatization by the Theatre Guild seemed to foreshadow the development of a medium which will possess a form and style of its own. It is unlikely to displace the theatre, but it may become a semi-independent kind of drama which may provide special gratifications.

Unless I greatly miss my guess the Theatre Guild's telecast of *Our Town* over N.B.C. on Sunday, June 6, will go down in history as the day when televised drama was really born. It was the first time that a play of quality was televised in the new medium with style and distinction. Congratulations are in order to the producer, Lawrence Langner, to the Guild's television executive, Warren Caro, to Frederick Coe, who directed, and to the good cast headed by Raymond Massey in the celebrated Frank Craven role. More importantly, however, it is possible at last to appraise a televised production without condescension and to draw conclusions as to its worth as a dramatic form. This is because the Guild's *Our Town,* while suffering from as yet unsolved technical problems, accomplished what every art does; it turned the limitations of the medium into an advantage, just as the sculptor takes advantage of the relative intractability of his materials instead of allowing himself to be defeated by them.

Specifically, it was to be noted that the telecast was no mere translation of a stage play to a screen, because it lacked the distanced illusionism of the theatre. Nor was it a motion picture either, because in spite of a succession of images on a screen, the televised drama was not really using space with the abandon and fluidity of films. The effect was a fusion of film and stage art, in the sense that the production had a visual mobility hitherto achieved only in films and yet it retained that gratifying roughness of life that even the most

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polished theatre performance possesses. The life-in-the-round quality or the spontaneity of performance had not been polished out of the acting by the numerous retakes, the painstaking make-up, costuming and coiffeuring, and the continual cutting, dissolving, and angling of Hollywood technique. A single performance was being photographed in continuity, instead of being put together piece-wise like a jig-saw puzzle. What will happen when television is done with films is another matter. If the film is made in the Hollywood manner, television is likely to lose in spontaneity what it gains in precision. I am inclined to believe that this will be a serious loss, and I, for one, very much hope that films made for televising will photograph a single continuous performance, with all its roughnesses, after suitable rehearsals. The fusion of theatre and film practice alone will give us what the *Our Town* production achieved—namely, the impression of an intimate theatrical form; more intimate, in fact, than anything else we have had outside the small arena type of theatre.

Television can have that intimacy and can provide a theatre at elbow-length distance, esthetically as well as physically. It can enable us to have a play all to ourselves emotionally. We may lose the communal contagion we get in a theatre and movie house, and the loss is not to be discounted. But this can be compensated by the sense of style, such as we have in a shadow play, a marionette show, a toy theatre.

The Guild's triumph in *Our Town* lay precisely in this sense of reality becoming a game, and of a little game imperceptibly deepening into moving reality. There were effects in the production that neither the stage nor the film version of *Our Town* equalled in immediacy—particularly in the funeral scene of the third act, the marriage ceremony, and the little scene in which Thornton Wilder's inebriated musician reels home. These and other portions were more pictorial than the Broadway production but they were not glossy pictures in the manner of films. They were pictorial with an effect of imaginative projection, with the suggestibility of reality reduced in scale and visibility; here life was seen through the veil of dream and private recollection instead of being thrust at us full size, as it is from the stage, or magnified, as it is in films. Even the toy-like tiny curtains dropped at the end of each act had this effect of something brought to the mind's eye and to private vision, in consequence of which the production shaped reality into a special grace, so that it could become each observer's exclusive possession. It was a unique experience, and a somewhat eerie one, that the Guild gave us, and it seemed admirably suited to the new medium.

No doubt the Guild's approach in this instance was determined by the unconventional nature of Thornton Wilder's play. It may not work so well with other plays, which are less stylized. But the Theatre Guild and television in general will do well to strive for stylization as the one procedure that can make televised drama truly distinct. A crude and even an expert duplication of the theatre or films will always be second rate and uncreative. It will be at best a substitute theatre for the poor, the lazy, or the snow-bound part of the public, whereas Mr. Langner's production has set an example of a genuine rather than a pinchbeck art in the making.

Black marketing in Germany is virtually a nation-wide practice. A woman in the Russian-occupied province of Mecklenburg relates the following experience:

A railway policeman searched her for black market goods at the station in Schwerin. The officer confiscated a pound of butter, putting it into his leather pouch. The woman watched him leave the bag in the waiting room, and when he was called away, she grabbed the bag. Much to her surprise she discovered the pouch contained not only her butter but also two large susages, a pound of bacon, and a loaf of bread!

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JASPER R. LEWIS

Books in brief

Duncan Aikman has put into words the feeling of alert Americans that theirs is a changing world, and that while we prate of revolutions in foreign lands we are still undergoing one right here. *The Turning Stream* (Doubleday, $5.00), is the vivid panorama of this chameleon country, told with sparkle, humor, and more than a little satire.

This business of rugged individualism, for instance, had its seed away back in the sixteenth century, in the struggles of the reformers, and in the several religious battles. Thus it was already well grown, if unacknowledged, in the Revolutionary period here. From then up to 1929 Aikman, with clever pen, traces the highlights of the American success story —in agriculture, railroads, oil, electricity. Some of his comments are richly pointed with irony or shrewd wit, as his brief characterization of Hoover and his times.

Another radical view of history is exemplified by the author's description of our so-called "tolerance" for races or religions, and his explanation of the way the Civil War was fought will be blasphemy to history teachers. It is not all in a spirit of levity that he punches away at the changing customs of the country, but his views are refreshing. Whether you like his evaluations of Henry and Clare Luce, Walter Lippmann, Henry Mencken, Freud, and others is of less importance than that he may galvanize readers into the terrible act of thinking for themselves about education, politics, or the business world.

It is less easy to go along with Aikman in his attacks on those who dislike regimentation or a controlled economy. He doesn't like the idea that the stockholder is entitled to a return on his investment; in fact, he is opposed to gadgets or technical improvements which mean lower human employment. This is the old exploded theory, but it is surprising to see Aikman using it. He is justified in remarking that we do not need a different political system, or a third party, or other changes, to get good government. The only requisite is the will to use the political machinery we now have.

Coming to the great current question of Russia, there is the wise suggestion that Russian history and the Russian system be earnestly taught here, so that understanding may progress, at least on our side. The impracticability of any form of military conflict—as far as permanent conclusions are concerned—between Russia and the United States should make the need for living together in peace more urgent.

In his views on the near future, Aikman pays his respects to the changing policies of railroads and automobile manufacturers, in the light of demands for socialization. As he says, it is possible that a wise railroad management will have squeezed out the water, improved service, and put railroad stocks on a sound basis. Socialization would thus be ridiculous. On the other hand, the automobile industry is no longer catering to the public. The answer is obvious: there might be a cry for socialization of that industry, with benefit to the country generally.

Perhaps thinking of F. D. Roosevelt, Aikman looks to "a more dangerous peace than Lincoln faced," in which "the great pursuit (of happiness) needs to be carried on." The one obstacle is fear. For this, the times call for a new Lincoln, a great leader, who will call for the people's happiness, rather than "petty triumphs for our competing dogmas and 'systems.'" To that, one may say amen, even if the shadow of such a leader is not visible on our horizon.

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BRIEFER COMMENT

BIOGRAPHY

Back in World War I, W. G. Rogers, then a doughboy, met Gertrude Stein and Alice B. Toklas. Between seeing them occasionally and corresponding with them up to the end of World War II, Rogers has gained a store of reminiscences and incidents. *When This You See Remember Me* Gertrude Stein in Person (Rinehart, $3.00), is the result. There is much of interest, particularly when delivered without the peculiar styling of Miss Stein, and the book is a find for devotees of the author of "a rose is a rose is a rose." Those who do not like that form of writing will still enjoy the story of a strange and unusual character.

The Legend of Henry Ford, by Keith Sward (Rinehart, $5.00), is more than the biography of the man; it is the history of the automobile from its birth in France at the hands of Daimler. More than that, it is the reflection of Ford methods on the development of an industry and a nation. Sward is not reluctant to point out the weaknesses in Ford and the misdeeds of his administrators. (Nor the weaknesses in the cars themselves as Ford refused his engineers' suggestions for improvement.) Every feature of Ford policy is discussed, including his political ambitions, intolerance, and cocksureness about life and living. It is a fascinating book, and a bright study of a rugged character.

Eugene Lyons comes to the belated defense of Hoover in *Our Unknown Ex-President:* A Portrait of Herbert Hoover (Doubleday, $2.95). The book begins with Hoover's birth in the Quaker hamlet of West Branch, Iowa, although Lyons frankly uses material from other works for his early picture of the former president. As a college student, mining engineer abroad, and a relief administrator, Hoover is portrayed as consistently exceptional in every way. It is unfortunate that Lyons quotes Hoover as saying in 1947 that "we definitely had the depression licked" in 1932.

Mr. Clutch, by Robert J. Casey (Bobbs-Merrill, $3.50), is a thriller, told as only Casey can, coaxing smiles and sympathy from his readers. Here is the biography of George William Borg—the man who made the Borg and Beck clutch that helped make the motor car world. Casey makes Borg a human being. It is naturally a success story, but told as though its subject were a modest if determined figure. It is excellent reading.

Lenin, A Biography, by David Shub (Doubleday, $5.00) is the revolutionist's history from boyhood on, told in a clear, objective style. Shub, a native Russian and participant in the revolutionary movement, knew most of the leaders, and seems to tell without favor or criticism what he knows of Soviet politics and personalities. Its very frankness as to motives, ruthlessness, and beliefs is one of its chief values.

FICTION

Melissa, by Taylor Caldwell (Scribner's, $3.00), is a psychological novel dealing with a daughter's subservience to an egotistical father, and her marriage for convenience to the wealthy publisher of her father's books. The development of her character is painstakingly told, and while she never becomes a lovable heroine nor a brilliant one, she does represent a type. The interest lies in Miss Caldwell's development of characters.

Walden Two, by B. F. Skinner (Macmillan, $3.00), is a delightful fictionalized discourse on our present economy and the attraction of an imaginary Utopia out in our Middle West. Skinner, who is a college professor himself, visits Walden Two, with two young war veterans and the advantages of this much to be desired spot are airily discussed. Even the good and bad points of Russian communism are compared to the principles of Walden Two. It is worth reading.

Those who enjoyed *The Small General,* by Robert Standish, will find an entirely different style in *The Gulf of Time* (Macmillan, $3.00). The new story is about gold and natives in New Guinea, with a thin love interest thrown in. It is rather tiresome and dull, with none of the sparkle of Standish's other books.

The Nazarovs, by Markoosha Fischer (Harper's, $3.00), is about a Russian family, starting long before the revolution and winding up to the recent world war. It is lengthy, detailed with customs and conversations. It

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reflects life in Russia as it was up to 1942, and, of course, it is loyal to Soviet ambitions, even when considering the harshest regulations. Like all Russian novels, it requires patience, but parts of it are animated and instructive.

There is hard boiled murder, fine Italian intrigue of the de Medici period, love, and passion, in *The Sword of Il Grande,* by Will Creed (Little, Brown, $3.00). It is set in imaginary Vicenda with less historical and more romantic attention than customary. A stalwart hero (who should have been a better swordsman for my money), a deformed and evil son and heir to the ruler, a necromancer, poison, and even a torture chamber all add up to a period novel that will hold your interest if you like that sort of thing.

The second volume of the historical romance depicting the life of Robert Burns is *The Song in the Green Thorn Tree,* by James Barke (Macmillan, $3.50). This covers two years of Burns' love making, writing, and enjoying his wild oats while preaching against intolerance and the stiff-necked requirements of the church and the times. It is a must for Burns fans.

A pleasant tale of early New England, *The Mill on Mad River,* by Howard Clarke (Atlantic-Little, Brown, $2.75), is a gentle, old-fashioned story of a young man in Waterbury, Connecticut. The plot is thin; interest lies in the characters, the customs, and the little things that made up small town life in 1810, with pioneering and struggle, and, of course, love.

GENERAL INTEREST

Rumbles of the recent war, wholly on the military side, go with *The AAF Against Japan,* by Vern Haugland (Harper's $5.00). This is the story of the American air force and its uphill fight in the Far East, from Alaska and Australia, over the South Sea Islands, to its ultimate destination in Japan. It is a fairly complete record, taken from government files and individual reports.

The makings of the dramatic expose of the Russian spy ring in Canada are revealed in *The Iron Curtain,* by Igor Gouzenko (Dutton, $3.00). Gouzenko tells his story as a boy near Moscow, growing up under the Pioneer movement of the Soviet, and going on to the war and his post at the Soviet Embassy in Ottawa. The climax is now history, but the descriptions of life in Russia, and of the intrigue in the embassy in Canada, are of definite interest.

Two recent volumes in the Viking Portable Library offer rich reading in handy form. One is *Swift,* edited by Carl Van Doren, who also supplies a suitable introductory résumé of Swift's career. The other is *Veblen,* edited with a biographical and critical introduction by Max Lerner. The first half of the famous *Theory of the Leisure Class* is given complete, as well as a liberal selection from Veblen's other works. Each volume is $2.00.

For New Yorkers and strangers alike, *New York City,* by the Editors of *Look* in collaboration with Frederick L. Allen (Houghton, Mifflin, $5.00), is a fascinating introduction, guide book, and souvenir. It is fascinating enough to enthrall the native, because it gives vignettes of the things he knows, dislikes, and loves all at once. With pictures, maps, and other illustrations, it offers the visitor information and a broad idea of what to look for when in town.

Life in Sumatra, with all its exotic charm and color, is reflected in *Tropical Adventure,* by H. Tscherning Petersen (Roy, $3.50). The Danish author put in a year on a plantation in his youth and makes an entertaining book of his experiences with the people and the customs of the Far East. His adventures with the native men—and a woman—sound as honest as they seem natural.

One of those curious stories of former Axis officials telling all is *From the Ashes of Disgrace,* by Admiral Franco Maugeri (Reynal & Hitchcock, $4.00). While Italy was in the war, he was, of course, carrying out his duties as a naval officer against the United Nations. After Italy's surrender, he worked for the democracies. During the former period his recollections seem to have a tinge of regret and apology that luck did not favor the Italians. Later he was staunchly for the Allies. The interesting portions are his conversations with Mussolini, Bagdolio, and other of the bigwigs, and the descriptions of the changes when the fortunes of war turned.

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YES!

By JAMES CARR

IN January, 1948, the United States Bureau of Labor Statistics issued a budget for a "modest but adequate American standard of living" for a family of four. The average income necessary to sustain this living standard was estimated at $3,200; with later rises in prices the necessary national average would become $3,450, or approximately $66.00 per week. For a 40-hour week, this would call for an hourly wage of $1.65.

Only a glance at the items of this budget confirms the statement of the Bureau that this is not a "luxury" budget. The wife of the family is permitted one new wool dress about every five years, and half soles on old shoes every second year. All four members of the family are allotted a single visit to the dentist every two years. For entertainment, the man of the house may have the equivalent of one beer a week (about 10 cents). No "new look" nonsense for the women of this household! Illness, or even a toothache, may plunge the family into debt.

So much for those American families with an average yearly income of more than $3,000. Without allowing for any time off, Philip Murray, of the C.I.O., recently estimated that the average weekly earnings of the American worker, when multiplied by 52 weeks, comes to only $2,730. And even this represents a high hourly wage to many honest American workers. According to statistics compiled in 1946, almost seven per cent of the four-person urban families in the United States had incomes below $1,500; 27 per cent had below $2,500, and almost 39 per cent had below $3,000. Even in mid-1946, the Bureau of Labor Statistics estimated income for an acceptable living standard was more than $2,700 annually. Prices today are still rising; late in June the Bureau reported that as of mid-May the consumer price index (based on the 1935-1939 average at 100), hit a new record at 170.5. All over the United States, lower income groups are struggling to make ends meet in the face of spiralling prices.

FORUM: Ar

Federal Reserve Bank surveys point up the plight of millions of Americans. By June, 1947, more than half the total Series E savings bonds in the lower denominations had been redeemed. Between January and June of 1947, for every one hundred $25.00 bonds sold, 194 were cashed in. In June, 1948, life insurance companies reported a 25 per cent increase for the past year in the surrender of policies for cash.

Between the fourth quarter of 1946 and the fourth quarter of 1947, the annual rate of savings declined by $2.1 *billion,* despite the rise in incomes after taxes at an annual rate of $15 million. The rate of saving today is almost as low as it was in the low-income year of 1937! According to the Federal Reserve Board, in 1945 individuals with incomes of less than $3,000 held 15 per cent of the total net savings; this same group in 1946 held only three per cent. True enough, the percentage held by those with incomes of over $7,500 increased markedly; this fact merely accentuates some of the difficulties faced by the common man today. Actually, the consumer's dollar today buys only 60 cents worth of goods, compared with its value in 1939. The dollar has in fact been shrinking steadily in value since we entered World War II, for in 1942, the dollar was able to buy only as much goods and services as 85 cents bought in 1939. By 1946, the dollar was buying only 71 cents worth, although before price controls were destroyed the dollar was worth more than 75 cents. By the spring of 1948, consumers were getting less for every dollar than they got for 60 cents in 1939, according to the B.L.S. official consumers' price index. Even these figures, however, do not present a complete picture. The *food dollar,* for example, is worth only 47 cents, and the *meat*

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'rices Too High? NO!

By JOSEPH C. WILLIAMS

VERY recently I asked a young businessman of my acquaintance whether or not he thought prices too high. His answer is perhaps typical of the average American viewpoint today: "Too high if I buy; too low if I sell!" Most of those who complain of current high prices, including my worthy opponent, fail to see the vital connection between high prices and our unprecedented national prosperity. Remembering with nostalgia the days when steak sold for 28 cents a pound, they forget the W.P.A., the bread lines, the apple sellers, the $15-a-week wages, which were an integral part of that era.

In a discussion of this nature, certain facts must be faced squarely. First, just as certain groups suffer most in a depression, so other sections of the population suffer in times of inflation. When prices are high, citizens with fixed incomes, pensioners and the like, suffer a diminution of their real incomes. Yet let us not be misled by tears for the widows and orphans, a somewhat pitiful but small portion of the total citizenry! Let us, concern ourselves, rather as my opponent puts it, with "the great bulk of our population." Second, it must be admitted that in any statistical discussion, it is relatively easy to pick and choose figures that make a certain point. Let us remember not to place too much reliance on compiled statistics. Remember, also, that the appeal of "the good old days" when prices were low (and incomes lower), is an emotional appeal hard to combat. Do not forget that we cannot expect the American economy to be in tip-top condition after a costly and wasteful world war, during which time we deliberately burned up and blew up millions on millions of dollars, and squandered man hours and human life itself. High prices cannot take the blame for all the dislocations of a post-war economy!

In truth and in fact, the history of capitalism shows a slow but steady rise in prices, as well as in wages and standards of living. Today, with the nation in a state of full employment, there is no evidence that prices are in themselves too high. There is no doubt, of course, that we are now in the middle of inflation, and that this inflation has resulted in serious inequities.

As Professor Seymour Harris recently pointed out to the Senate Banking and Currency Committee hearing on Stabilization:

"One can well imagine what a rise in prices of two-thirds, and of food of more than 100 per cent means to 3,000,000 veterans living on pensions, to 2,000,000 beneficiaries on federal old-age insurance, to 12.9 per cent of the nation's families receiving less than $1,000 per year, and the 28.2 per cent receiving less than $2,000 per year. A family receiving $1,000 spends about 40 per cent for food. In 1939, the family spent $400 out of $1,000 on food. A rise of food prices by 100 per cent would leave the $1,000 family with but $200 for other expenditures. (I assume no increase in income was had, and no cuts of the real food budget.)"

Professor Harris, however, puts his finger on the crux of the matter in his next paragraph:

"The damage done depends upon how the inflation affects different groups. Although family incomes are up about 75 per cent over 1935-36, *the gains are very uneven.*" This inequity of distribution, rather than high prices themselves, is partially responsible for the desperate plight of some lower income groups.

My opponent has cited statistics which indicate that most of the families of the nation can barely afford to feed, clothe, and shelter themselves. Yet, in the late Spring of 1948, the nation's economy was booming; some Americans seemed well able to buy and buy and buy. According to the Federal Reserve

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dollar a mere 44 cents. During the latter part of June, food prices rose still further, with most choice cuts of meat going over $1.00 per pound at *super markets* alone. The *clothing dollar* in April went down to 51 cents; the *housefurnishings dollar* to 52 cents.

Consider too, that although the consumer suffers most (and most audibly) from current high prices, he is not the only loser. The business man's dollar at wholesale is worth only 48 cents today; his dollar going for raw materials is worth only 40 cents, compared with 1939 prices. And, if he is in the market for farm products at wholesale, his dollar has shrunk to 35 cents. The employer's labor dollar has decreased by half, and is worth only 50 cents today; in other words, he gets no more work done for one dollar than he got for 50 cents in 1939.

This means, as my opponent will be quick to point out, that the worker is getting higher wages now than he did in 1939. True enough! Yet, the average weekly wage rate has not risen fast enough nor high enough to counteract the price rise. A typical example was cited in a recent article by C.I.O. chief Murray in the July *Atlantic*. A typical industrial worker, married and with two children, was making $47.50 per week before taxes in 1945. By the end of 1947, his wages had increased to $52.69 before taxes. But, and what an important "but" this is!, he now discovered that his $52.69 would buy only what $40.00 bought two years back. In other words, his actual real earnings declined over 15 per cent while his money wages increased only 11 per cent.

What do these figures mean? First of all, they indicate profound dissatisfaction on the part of millions of Americans with their financial status. For millions of families, these postwar years have meant deep cuts into savings, if any, and long excursions into debt. When we consider that the declining *quality* of many commodities has occasioned a hidden but appreciable further price rise, we sympathize even more strongly with the unfortunate Americans caught in the squeeze. Oddly enough, many of us have the mistaken impression that only special groups have felt the pinch. Obviously, all those who depend on more or less fixed incomes, pensions, insurance, and so forth, suffer noticeably during inflation. Less obviously, the entire middle class—all professional people, all office workers—feels hardship. Small businessmen in particular find it impossible to make a reasonable profit. And unorganized, unskilled labor of all varieties must scrimp and scrape to feed hungry mouths. It is, therefore, false reasoning to assume, as does my opponent, that the trouble lies simply in uneven distribution of wage increases. On the contrary, it is axiomatic in economics, that wages rise more slowly than prices, and fall more quickly. In time of inflation, then, no-one who relies on wages or salary for his living can hope to keep pace with spiralling costs.

Not only the average American, but the average citizen of the world, suffers from high American prices. With American prices (and wages) the highest in the world, it is growing increasingly difficult for other nations to trade with the United States; the resultant dollar shortage bodes ill for future international trade relations. Because of our high prices, we had to resort to Lend-Lease devices during the war, so that Allies unable to *buy* from us could nonetheless get from us the necessities of war. Today, the European Recovery Program performs much the same function in making basic foods available overseas, foods which our prices prohibit European nations from buying. In spite of E.R.P., however, the average European country *has* to buy from the United States and the average European suffers because his prices (and wages) are so far below ours.

The cost to the American taxpayer of the European Recovery Program is also greatly increased by the exorbitant prices of food and other commodities today. The higher prices go, the greater the tax burden will be on the average American who already suffers so keenly from high costs of living.

It is axiomatic in classical economics to assume that the "natural" law of supply and demand will regulate prices. When demand is high and supply low, prices are high; when supply is high and demand low, prices are low. Faithful followers of this school believe that *prices can never be too high,* since they are merely the reflection of the law of supply and demand and will regulate themselves at

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the appropriate moment. In this era of monopoly and government regulation, this is simply not the case.

In many industries, monopolies and monopolistic combinations act continually to restrict production so that the supply is never high enough in relation to demand to cause a price fall. As *Business Week* pointed out in a candid moment (August 2, 1947): "The law of supply and demand, temporarily, isn't working as it is supposed to. When demand fell off, producers used to mark down prices in an effort to stimulate buying. Today, instead, output is cut to support prices."

The example of the shoe industry was cited as a case in point. According to the Department of Commerce, in 1946 the shoe industry produced 528 million pairs of shoes. In 1947, because falling demand pushed prices down, production was cut by 60 million pairs of shoes, and with this artificial shortage, prices rose 35 per cent.

Chilcote in *The Chicago Sun*

"No Respect for the Law"

FOOD PRICES

Food prices, too, reflect not the laws of supply and demand but government price support programs. The government is committed to a long-range price support program for farm goods, and even to buying surpluses and destroying them in order to prevent a sharp drop in farm income. If this program is continued, there is no hope for the consumer that food prices will drop of their own accord, or that extra-large crops will have a salutary effect on the cost-of-living. The painful truth is that the years of the great depression and the New Deal taught the farmer to restrict output and to combine to restrict output, in much the same way that the shoe industry does. True, this is harder for the farmer to accomplish, but the United States government has for many years given him a helping hand.

Naturally enough, spokesmen for industry are concerned to point out that price rises are the effect of wage increases. Philip Murray, in his *Atlantic Monthly* article, denies this charge, affirming that on the contrary:

"Prices have zoomed because industrial monopolies are in a position to create artificial shortages and to charge the highest prices the public can bear. The price increases go far beyond any wage increases and in fact have little discernible relation to them, although we constantly hear the cry that wage increases are inflationary."

In typical industries, the wholesale prices of manufactured goods have risen far beyond the increases in wages. With wages constituting no more than 40 per cent of the total cost of production in most industries, it is impossible to lay the blame for inflation on the small rise in workers' wages. On the contrary, there is little doubt that the average industry could well afford to absorb even further wage rises and even to lower prices, while still maintaining a reasonable profit.

In summary, it is obvious that the American working class, the white collar worker, the pensioners, and annuitants, the professional man, and even the small businessman, are suffering economic hardship because of current high prices. Millions of American families are learning to "go without"—go without butter, meat, shoes, and other clothing, because of the pressure of rising prices on their standard of living. Today, the average American family spends 30 per cent of its income after taxes on food and drink, whereas the pre-war

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average budget called for an expenditure of 25 per cent of the income for food and drink. Rents, too, have increased, and only a price control act prevents an exorbitant rise in the cost of shelter for the average citizen. High taxes are eating into everyone's income, and these taxes are high because prices are high and the cost of government is correspondingly high.

The 50 per cent increase in wholesale prices within two years has had its effect on the businessman as well, and with high taxes reaching into his surplus, he too feels the pinch of an inflated economy.

On the other side of the world, where hunger lurks at every door and the basic necessities of life are impossible to come by, the American price structure works unbelievable hardship. The government of Great Britain, still comparatively well off, can barely cope with the crucial dollar shortage.

In attempting to answer the question: "Are prices too high?" we are forced to ask another question: "Too high for whom?" Naturally enough, some segments of our economy are benefiting from the current inflation and some industrialists and union members are enjoying unprecedented prosperity. Mr. Average American, however, cannot make ends meet out of current income, and his savings, if any, are being steadily depleted, as he tries to provide his family with the basic necessities of life. *For the great bulk of the population* (and in a democracy we are primarily concerned with the bulk of the population), *prices are too high.*

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Board's third annual survey of durable goods spending, no let-up is expected in the demand for autos, refrigerators, and other durable goods. In 1947, approximately 20 million families bought autos, radios, and washing machines. At the beginning of 1948, more than four million people were planning to buy new cars; more than one million would try to purchase new houses. Total money income, according to the survey, had risen 10 per cent, and out of more than 48 million spending units, two and a half million more had incomes in excess of $5,000 in 1947 than in 1946.

In the durable goods market, prices might be said to be too low rather than too high. Automobile manufacturers have steadily held prices down artificially, so that the demand has always exceeded the supply, with the result that black market operations in cars are the rule today.

No-one who buys or sells in the retail or wholesale market can doubt that prices are rising steadily. Food prices rise from week to week. Even compared with 1940 prices, the prices on durable goods such as autos and washing machines seem to many unreasonable. In 1940, the Plymouth four-door sedan, for example, could be purchased and delivered for less than $900; today, the list price of a similar model is almost double, and a black market bonus adds to the list price.

Prices, however, are not the only items that have climbed. The cost of raw materials is way up; so is the cost of government, the national debt, the cost of labor. Take the steel industry as an example. According to the report of the Department of Commerce to the President, the composite index of quoted prices for finished steel has risen about 40 per cent above 1939 levels. In the same period, the cost of scrap steel increased 150 per cent; the cost of coking coal, 136 per cent. So much for raw materials. At the same time the average hourly earnings of steelworkers rose by 80 per cent.

The constant pressure for raising the minimum wage also reflects the rising wage trend. Those very groups who complain about high prices are sponsoring proposals to raise legal minimum wages from 40 to 75 cents an hour, an increase of 87½ per cent. Mr. Truman himself is behind this measure, although he leads the outcry again "dangers of inflation." Given a choice between lower prices and higher wages, the average worker will select high wages almost unanimously. "You can't have your cake and eat it too" is an old maxim that might well be studied in this connection.

We might also just as well face the fact that the fiscal policies of the federal government since 1933 have been basically inflationary and, further, that these fiscal policies have enjoyed

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the unqualified endorsement of the electorate. During the days of the A.A.A. and the N.R.A., price "floors," "support" prices, and "parity" became commonplace, and high prices were regarded as a sign of prosperity. It is beyond the scope of this article to discuss the inflationary aspects of our banking system; suffice it to mention the current expansion of money in circulation. The financing of the last war through bond issues sold largely to commercial banks, who in turn used the bonds as collateral at the Federal Reserve Banks, rather than taxation is also a very large factor in the present price spiral.

THE NATIONAL DEBT

We cannot discuss the rising price structure in the United States, however, without reference to the rising national debt. Currently the federal debt is approximately $257 *billion,* a figure of such proportions as to mean almost nothing to most of us. In one dollar bills laid end to end, this sum would reach around the earth a thousand times! At the present time, public finance experts are concerned not with the debt itself but with the unbelievably low interest rate on the debt and the unbelievably high interest amount nevertheless. Basically, the debt is in large part held by the banks aided by the rediscount of member banks at the Federal Reserve for paper money as needed. But a debt of $250 billion at two per cent demands five billion dollars in annual interest alone. (Reduction of the same amount yearly, would be $10 billion dollars!) Now the higher the national income, the easier it is for the government to finance the interest on the federal debt and to reduce the principal. A fixed interest of $5 billion a year is clearly more easily met from a national income of say $150 billion annually than it is from a national income of $50 billion. Taxes levied on dollar income will yield sufficient revenue for this purpose only if dollar income remains high, and dollar income will remain high only so long as prices remain high. Thus it is obviously to the best interest of the administration to maintain high prices and to guard carefully against an appreciable price decline.

There is a connection between prices and costs. Prices, in any system, must include the costs of the goods purchased and all expenses. The expenses must include wages, taxes, and in some form, the costs of replacing the buildings and machinery which are being worn out in the process of producing the goods sold. They must provide for replacement of machinery made obsolete by the introduction of new machinery and they must cover the possibility of building new machinery as well.

Taxes must include the actual day to day running expenses of the government. A policeman's or a soldier's pay really represents a claim which the policeman or the soldier has on the goods the community produces. He is paid to protect, not to produce goods, but goods must be produced to cover his pay. In addition, we recognize many other claims: rent, interest, and insurance among others. Without going into the fact that these and many other claims against production may or may not be justified, so long as we recognize them, our price structure must include them in the cost of all goods sold.

In this category obviously are interest on the national debt and some provision for retiring the debt. In this category, too, are social insurance as well as other forms of insurance. The total income of the country must include all these costs.

Some of the figures are easy to arrive at. Some are almost impossible to establish. In the budget of the United States for 1947, the gross income of the national government was $43.259 billion. The total expenditures were $42.505 billion so that for all practical purposes the receipts and expenditures cancelled out.

Of these expenditures, $14.820 billion were for defense; $7.370 billion were for veterans' benefits; $6.540 billion for foreign affairs; $4.958 for interest on the national debt and $1.379 were for Social Security expenditures —not collections. These items total $34.607 billion.

In 1932, the low year of the depression, our total national income, not our governmental income from taxes, was $39.963 billion, less than we collected in taxes alone in 1947 and not much more than our expenditures listed above at $34.067 billion!

In 1932, the federal government collected in taxes $2.005 and spent $5.153. In other words, the federal government expenditures

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Fitzpatrick in the *St. Louis Post-Dispatch*

"NEGLECTED CUSTOMER"

were about 15 per cent of our national income; its collections about 6 per cent.

To go to a year when expenditures and income were approximately the same, collections in 1930 from taxation were $4.177 billion; expenditures were $3.994, and the gross national income was $68.858. Both taxes and government expenditures were less than 6 per cent of the gross national income.

During the twenties and up to 1930, the government both collected and spent less than 10 per cent of the gross annual income of the country. During this period, the country was relatively prosperous. It seems obvious that the government cannot indefinitely spend more than it collects. Neither can it spend more than 10 per cent of the gross national income without endangering the financial structure of the country. If both these assumptions are true, our over-all prices are still too low.

To stand a tax bill of $43.600 billion, the country will, I think, have to get much closer to an income of $300 billion than to one of $170 billion. This figure in itself could be twice the gross national income of 1929. If these figures are correct, obviously we must have higher prices than we now have or we shall have to give up some of the essential services which went to make up $34.067 billion of expenditures in 1947—a prospect my opponent would abhor. The sizeable slice deducted from most pay envelopes today goes to pay for these services instead of helping with the family budget. It is time for Americans to recognize that their "Service state" is expensive to operate.

The increased money in circulation today also helps the long-range economy of the country by permitting businessmen to expand their plants for greater production later. Profits today are high—so much is true—yet high profits re-invested in consumer industries will eventually mean a higher living standard for every American. In this connection it is well to note that an era of falling prices leads to restriction of investment, reduced inventories, layoffs, and other uncomfortable signs of depression.

With hourly earnings twice what they were in 1920, with the national income three or four times greater than it was in 1933, it is clear that the era of high prices is an era of prosperity for the average American workman. The consumer price index has increased by 71 per cent since 1939; but the average compensation to employees has risen by 181 per cent. The annual rate of compensation to employees has risen from 48 billion dollars (1939) to 117 billion (1946), and finally, to 135 billion today.

To prove his point, my opponent takes 1939 as a base year for his figures. Yet 1939 was not a year of great prosperity; the "recession" of 1937 still cast its long shadow and full employment was not attained until some time in 1940. If we take as a year for comparison the prosperous post-war era of 1920, the statistics look far different. The average of *all* wholesale prices at the January, 1948, peak was the same as the 1920 peak. Sugar, rubber, hides, copper, cotton, and wheat sold for less in 1948, and the prices of all non-farm and non-food prices were lower than 1920. Hourly earnings, on the other hand, were twice as high in 1948 as they were in 1920! Can anyone doubt that the average wage earner is better off today?

The American farmer, for one, has no doubt that he is far better off in a high price econ-

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omy. Farmers can still remember when apples and peaches didn't bring in enough to pay for the work of picking and packing them. Today, for the first time, many farmers are free of debt and modern conveniences and equipment are making their way into rural communities. In 1940, total farm income in the United States came to more than nine million dollars; by 1946 this figure had climbed to more than 25 million dollars; 1947 and 1948 income figures will, of course, be higher still. When we remember that there are fewer farm families today to share the wealth, we get a truer picture of rural life. With profits at a record high, the farmers of 1948 have greatly reduced their mortgage debt. In the state of Washington, for example, in 1930 more than half the farms of the state were mortgaged; today only one-fourth are mortgaged. The average farm mortgage of 1930 was $4,500; the average mortgage of 1948 is only $3,000. Naturally enough, the farmers, always supporters of "easy money," favor inflation and current high prices.

The total value of national output has increased from 90 billion dollars (1939), to 204 billion (1946), to 244 billion today, and per capita income after taxes rose (in 1947 dollars) from 838 dollars in 1939 to 1,184 dollars today, according to Leon Keyserling of the President's Council of Economic Advisers. The farmer is not the only one better off with high prices!

General consumption of consumer goods per capita has increased about 31 per cent since 1940 (adjusted for changes in price). Between 1941 and 1946, the average real income of the lowest income group increased 68 per cent; that of the second lowest fifth, 59 per cent, and that of the highest fifth, 20 per cent.

Thus today, the American standard of living is the highest in the world and higher than ever before in the United States. That prices are also at record highs is no coincidence. High prices mean prosperity for most of our citizens. Inequities there are, to be sure, but these should be corrected by bringing all wages and pensions into line with current living costs, and by lowering prices where these are markedly out of line. Because some Americans suffer from the present high cost of living is no reason to throw our whole economy into another low-price depression era. Let us be thankful for full employment and for full dinner pails!

The only way to head off inflation is to bring dollars and sense together. —*Bob Hawk*

The first life insurance company in America, organized in 1759, was called, "A Corporation for the Relief of Poor and Distressed Presbyterian Ministers and of Poor and Distressed Widows and Children of Presbyterian Ministers."

A friend of mine once was a passenger on an American railroad sleeper, and was badly bitten by bugs. He wrote to the company to complain.

Back came a reply. It was the first complaint the company had had. Inquiry had failed to reveal any explanation for the unprecedented occurrence. Nevertheless, the stringent precautions taken in the past would be redoubled in the future. . . . Then out of the envelope fell a slip: "Send this guy the bug letter." —G. S. Schwartz, *British Economist*

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Say The Name Over

The name, unadjectived, the naked name,
Invulnerable, explicit—that, alone,
Surviving all in its uncancelled claim,
Appropriates the thing that is its own.

Say the name over—name what is your love,
Over and over, on the virginal air,
And—look! The thing the heart was fainest of,
Is there, in solid property, is there.

The woman . . . or a summer . . . any star
That fled your heaven . . . let the name be said:
And, there: a summer, come from Fair and Far,
And, there: a woman, come . . . So, overhead,

The star that fell, returning through this art,
To the heart's sky, the heaven over the heart.

Personal Landscape

This is a land where all the birds are crows,
And all the fields are stubble, and the air
Smells of slow ruin on a wind that blows
Between them and a sun that is not there.

The language of this country is a tongue
Suited to wintry and metallic speech,
Wherein no kind of song was ever sung
That might not be the dry and acrid beech.

The men who walk these counties walk alone,
At day's end, in the light of early stars,
The grey woods know them, and the weed and stone,
And each the other's hushed and ruinous wars,

Waged in the breast, and for no certain aim:
Not peace . . . not love—for nothing they could name.

DAVID MORTON

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CONGRESS DEBATES:

Reciprocal Trade

ONE week before the opening of the Republican National Convention in Philadelphia, the Senate passed, by a vote of 70-18, H. R. 6556, an extension of the Reciprocal Trade Agreements Act for one year.

The Republicans were caught between their commitments to a bi-partisan foreign policy that upheld reciprocity and the tradition of a party that upheld protection. This dilemma was neatly solved by Messrs. Millikin and Vandenberg who thought that the whole matter of reciprocity should wait a year until the Senate had had an opportunity to discuss the world trade charter.

Mr. Brewster, of Maine, called frankly for a return to the Republican tradition of protection and urged passage of the bill.

Although Mr. Truman had asked for a three-year extension of the Act, the Democrats were divided in their opposition to the one-year extension, Mr. George siding with Mr. Millikin. Senator Barkley, of Kentucky, tried vainly to have three amendments passed, extending the act for three years, for two years, or for one year as it stood. All three were defeated.

Forum presents below excerpts from this debate. [1]

Mr. MILLIKIN, Republican, Colorado. The reciprocal-trade system cannot remain static in a rapidly changing world. No good purpose is served by running up our blood pressures at the mere suggestion that improvement is possible or desirable. If the system does not accommodate itself to fair criticisms, it will fall before their cumulative strength.

The President ordered inclusion of escape clauses, but in practice hedged the escape procedures with so many conditions that they are ineffectual. This will be demonstrated.

On June 15, 1934, President Roosevelt wrote Representative BUCK as follows, and this may be found in the record of the hearings at pages 377-378:

> MY DEAR CONGRESSMAN BUCK: I am somewhat surprised and a little amused at the fears you say have been aroused in California because of the enactment and possible administration of the Reciprocal Trade Agreements Act. Certainly it is not the purpose of the administration to sacrifice the farmers and fruit growers of California in the pursuit of the will-o'-the-wisp of foreign markets, as published reports would make believe. I trust that no Californian will have any concern or fear that anything damaging to the fruit growers of that state or of any other state will result from this legislation.
>
> Very sincerely yours,
>
> FRANKLIN D. ROOSEVELT.

In President Truman's message to Congress of March 1, 1948, on the subject of reciprocal trade agreements extension, he said:

> In addition, the interests of domestic producers are carefully protected in the negotiation of each trade agreement. I assured the Congress when the Reciprocal Trade Agreements Act was last extended in 1945 that domestic producers would be safeguarded in the process of expanding trade. That commitment has been kept. It will continue to be kept. The practice will be continued of holding extensive public hearings to obtain the view of all interested persons before negotiations are even begun. The practice will be continued whereby each agreement before its conclusion will be carefully studied with the Departments of State, Treasury, Agriculture, Commerce, and Labor, the National Military Establishment, and the Tariff Commission.

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1 *Congressional Record, Senate*, Vol. 94, No. 108, pp. 8307-8312, 8315-8319, 8321-8328, 8332-8333, 8341-8343.

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> Finally, each agreement will continue to include a clause which will permit withdrawal or modification of concessions if, as a result of unforeseen developments and of the concessions, imports increase to such an extent as to cause or threaten serious injury to domestic producers.

In connection with the hearings on the extension of the reciprocal trade agreements in 1945, Mr. Clayton testified; reading from page 7 of that report, and from page 378 of the report on the hearings before the Senate Finance Committee:

> A rumor has freely circulated that certain American industries have been singled out as inefficient industries and that if the additional authority provided for in the bill is granted the State Department will use such authority to trade off these inefficient industries for other industries which can compete in the world market. Nothing could be further from the truth than this. The State Department has never construed the Trade Agreements Act as a license to remake the industrial agricultural pattern of America. The record of 11 years of administration of the act should prove that. If, however, there is any doubt in anyone's mind regarding the use of the act to seriously injure American industry, this doubt should be completely dispelled by the letter of May 25 from President Truman to the Honorable SAM RAYBURN. The short letter reads as follows:
>
> "MY DEAR MR. SPEAKER: Supplementing our conversation yesterday, I wish to repeat that I regard the pending measure for the renewal and strengthening of the Trade Agreements Act as of the first order of importance for the success of my administration. I assume there is no doubt that the act will be renewed. The real question is whether the renewal is to be in such form as to make the act effective. For that purpose, the enlargement of authority provided by section 2 of the pending bill is essential. I have had drawn to my attention statements to the effect that this increased authority might be used in such a way as to endanger or trade out segments of the American industry, American agriculture, or American labor. No such action was taken under President Roosevelt and Cordell Hull, and no such action will take place under my Presidency."
>
> "Sincerely yours,
>
> "HARRY S. TRUMAN."

Mr. President, you have noted that the noninjury assurances were unequivocal and therefore would warrant their inclusion in the bill as a mandatory standard. These assurances were relied upon by members of Congress in granting past extensions of the Reciprocal Trade Agreements Act. Skepticism as to whether they would be kept has prompted resistance to the system and has substantially narrowed the field of its support.

Is it going back to high protectionism, is it gutting reciprocal trade, to provide a reminder to the President—that is all we are doing here—of an explicit assurance which he has given presumably for the constructive furtherance of the system?

This is all that is intended by the bill before us with its proposed amendments.

What are the objections to the bill with its proposed amendments? They come to these:

First. A year's extension is not enough;

Second. The bill mandates a single standard—noninjury for domestic producers—for making an agreement;

Third. Costs of production would be the sole inquiry of the Tariff Commission and this is impractical under the present state of the world's economy;

Fourth. It will put too much of a burden on the Tariff Commission, and that the Commission is not competent to give advice on peril points;

Fifth. The Tariff Commission will be subjected to pressure;

Sixth. It is not necessary, because domestic producers are protected by the escape clause;

Seventh. It would destroy the functions of the Interdepartmental Committee which now advises the President as to what should be done;

Eighth. It would reimpose the Smoot-Hawley tariff law, which would restore high protectionism; and

Ninth. It would restore tariff making by logrolling.

As to the claim that one year's extension is not enough, I respectfully suggest that it is easily demonstrable that a longer extension would be senseless. In the first place, it will be quite evident before the day is over, and it has already been made quite evident by public discussion of the matter and by testimony at the

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hearings, that in this election year it is impossible to give the subject the type of review which might justify a longer extension. But the decisive reason is in the relation of the Reciprocal Trade Agreements Act to be Geneva multilateral trade agreement and the proposed charter of the International Trade Organization drafted earlier this year at Havana. Anticipating that the extension of the act and the action on the proposed charter for the International Trade Organization would be before the Congress during this session, the Senate Committee on Finance, a year ago, conducted extensive preliminary hearings on the subject. These hearings were held because the interlocking relationship between the act, the Geneva agreement, which was in the offing, and the proposed charter for the International Trade Organization, was thoroughly understood by the Senate.

The provisions of the Geneva multilateral trade agreement make entirely clear the inextricable relationships between the three matters which have been mentioned, from which it follows that whether we do or do not approve the proposed charter for the International Trade Organization, revisions will have to be made in the Reciprocal Trade Agreements Act in order to conform it and to make it supplemental to the proposed charter, if it should be adopted, or to conform it to or to delimit nonconformance with the Geneva agreement, if the proposed charter is not adopted.

. . . . The proposed charter for the International Trade Organization has not been submitted to Congress and will not be submitted until next year.

I ask the close attention of the Senators, because I propose now to demonstrate the inextricable relationship between the Trade Agreements Act, the Geneva multilateral trade agreement, and the proposed International Trade Organization's charter, and that this condemns an extension of more than one year.

I read from article 29, appearing on page 62 of the General Agreement on Tariffs and Trade, the so-called multilateral Geneva trade agreement. The article is entitled "Relation of This Agreement to the Charter for an International Trade Organization":

1. The contracting parties, recognizing that the objectives set forth in the preamble of this agreement can best be attained through the adoption, by the United Nations Conference on Trade and Employment, of a charter leading to the creation of an International Trade Organization, undertake, pending their acceptance of such a charter in accordance with their constitutional procedures, to observe to the fullest extent of their executive authority the general principles of the draft charter submitted to the Conference by the Preparatory Committee.

2. (a) On the day on which the charter of the International Trade Organization enters into force, article I and part II of this agreement shall be suspended and superseded by the corresponding provisions of the charter: *Provided,* That within 60 days of the closing of the United Nations Conference on Trade and Employment any contracting party may lodge with the other contracting parties any objection to any provision or provisions of this agreement being so suspended and superseded; in such case the contracting parties shall, within 60 days after the final date for the lodging of objections, confer to consider the objection in order to agree whether the provisions of the charter to which objection has been lodged, or the corresponding provisions of this agreement in its existing form or any amended form, shall apply.

(b) The contracting parties will also agree—

I interpolate to say that the contracting parties are all parties who signed the Geneva agreements—

The contracting parties will also agree concerning the transfer to the International Trade Organization of their functions under article XXV.

3. If any contracting party has not accepted the charter when it has entered into force, the contracting parties shall confer to agree whether, and if so, in what way, this agreement, insofar as it affects relations between the contracting party which has not accepted the charter and other contracting parties, shall be supplemented or amended.

4. During the month of January, 1949, should the Charter not have entered into force, or at such earlier time as may be agreed if it is known that the Charter will not enter into force, or at such later time as may be agreed if the Charter ceases to be in

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force, the contracting parties shall meet to agree whether this agreement shall be amended, supplemented, or maintained.

I skip the final paragraph of that article. I shall now read from article 25. This is called Joint Action by Contracting Parties, and reads:

1. Representatives of the contracting parties shall meet from time to time for the purpose of giving effect to those provisions of this agreement which involve joint action, and, generally, with a view to facilitating the operation and furthering the objectives of this agreement. Wherever reference is made in this agreement to the contracting parties acting jointly they are designated as the contracting parties.

2. The Secretary General of the United Nations is requested to convene the first meeting of the contracting parties which shall take place not later than March 1, 1948.

3. Each contracting party shall be entitled to have one vote at all meetings of the contracting parties.

4. Except as otherwise provided for in this agreement, decisions of the contracting parties shall be taken by a majority of the votes cast.

5. In exceptional circumstances not elsewhere provided for in this agreement, the contracting parties may waive an obligation imposed upon a contracting policy by this agreement: *Provided,* That any such decision shall be approved by a two-thirds majority of the votes cast and that such majority shall comprise more than half of the contracting parties. The contracting parties may also by such a vote—

(a) define certain categories of exceptional circumstances to which other voting requirements shall apply for the waiver of obligations—

"For the waiver of obligations"—

and (b) prescribes such criteria as may be necessary for the application of this paragraph.

Without arguing it—this is not the time argue it; the time to argue these matters will be when we have the proposed Charter before us—it must be perfectly evident from the article which I have read that a self-respecting claim can be made that we have now subjected the making of our trade agreements to delegations of power in the second degree. The Congress has delegated its power to the President, the President has delegated his power to the contracting parties, and the contracting parties, by a majority vote or by a two-thirds vote, may make decisions of utmost significance, so far as our trade relations are concerned. . . .

Let me now read from article 23, found on page 54 of the Geneva agreement:

1. If any contracting party should consider that any benefit accruing to it directly or indirectly under this agreement is being nullified or impaired or that the attainment of any objective of the agreement is being impeded as the result of (a) the failure of another contracting party to carry out its obligations under this agreement, or (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this agreement, or (c) the existence of any other situation, the contracting party may, with a view to the satisfactory adjustment of the matter, make written representations or proposals to the other contracting party or parties which it considers to be concerned. Any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it.

2. If no satisfactory adjustment is effected between the contracting parties concerned within a reasonable time, or if the difficulty is of the type described in paragraph 1 (c) of this article, the matter may be referred to the contracting parties. The contracting parties shall promptly investigate —

Let me interpolate, we are talking about the fate of our own exports and our own imports, we are talking about the exports and imports of all the countries who joined the Geneva agreement.

The contracting parties shall promptly investigate any matter so referred to them and shall make appropriate recommendations to the contracting parties which they consider to be concerned—

"Which they considered to be concerned"—

or give a ruling on the matter, as appropriate. The contracting parties may consult with contracting parties, with the Economic and Social Council of the United Nations, and with any appropriate intergovernmental or-

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ganization in cases where they consider such consultation necessary. If the contracting parties consider that the circumstances are serious enough to justify such action, they may authorize a contracting party or parties—

I interpolate again, this may include the United States of America, as well as any other party.

They may authorize a contracting party or parties to suspend the application to any other contracting party or parties of such obligations or concessions under this agreement as they determine to be appropriate in the circumstances. If the application to any contracting party of any obligation or concession is in fact suspended, that contracting party shall then be free, not later than 60 days after such action is taken, to advise the Secretary-General of the United Nations in writing of its intention to withdraw from this agreement and such withdrawal shall take effect upon the expiration of 60 days from the day on which written notice of such withdrawal is received by him.

Again, I am not arguing whether this is a valid inclusion in the Geneva trade agreement, but certainly it is manifest from what has been read that what is being done, for better or worse, depending upon the way one looks at it, is a revolutionary departure from our past trade practices, and the only time, I repeat, when the merits of it can be considered will be when this complementary document is before us, the document from which this provision is taken. . . .

EXCHANGE ARRANGEMENTS

Now here is a very significant article. It is article XV, entitled "Exchange Arrangements":

1. The contracting parties shall seek cooperation with the International Monetary Fund to the end that the contracting parties and the fund may pursue a coordinated policy with regard to exchange questions within the jurisdiction of the fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the contracting parties.

2. In all cases in which the contracting parties are called upon to consider or deal with problems concerning monetary reserves, balances of payments, or foreign exchange arrangements, they shall consult fully with the International Monetary Fund.

Note this, please. . . . .

In such consultation, the contracting parties shall accept all findings of statistical and other facts presented by the fund relating to foreign exchange, monetary reserves, and balances of payments, and shall accept the determination of the fund as to whether action by a contracting party in exchange matters is in accordance with—

Not with this agreement, from which I am reading, not with the Trade Agreements Act, but is in accordance with—

the articles of agreement of the International Monetary Fund, or with the terms of a special exchange agreement between that contracting party and the contracting parties. The contracting parties, in reaching their final decision in cases involving the criteria set forth in paragraph 2 (a) of article XII, shall accept the determination of the fund as to what constitutes a serious decline in the contracting party's monetary reserves, a very low level of its monetary reserves, or a reasonable rate of increase in its monetary reserves, and as to the financial aspects of other matters covered in consultation in such cases.

Let me repeat—and I do not argue whether this is something which we should or should not approve—that here we have a delegation in the third degree of the tariff-making powers which are exclusively lodged in the Congress of the United States under the Constitution. We delegate the powers to the President—in the first degree. He delegates to those who have signed these agreements—in the second degree. They delegate to the monetary fund—in the third degree. . . . . Perhaps we will approve this provision. Perhaps we will want to limit it. But, I repeat, we cannot give intelligent attention to the matter until all three are before us next year. . . . .

Mr. President, from what has been read, it is crystal clear that the Geneva agreement has been explicitly tied to the proposed charter; that a part of the proposed charter has been incorporated bodily into the Geneva agreement; that it is manifest that revolutionary departures from past world-trade practices have been incorporated in the Geneva agree-

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ment and are in the proposed charter; that nothing of the kind is spelled out in the act which we propose to extend on our part here today; and that good faith contention is available that the act which we propose to amend does not carry implications broad enough on which to base that which has been done at Geneva; that if the Congress shall accept these departures, authority will have to be spelled out in the act; and that there will have to be accompanying revisions of some of our significant domestic legislation. Therefore, it is again suggested that there is no point in an extension that would carry past the time in which revision of some kind will have to be made.

Also, it is again emphasized that our inability to make whatever revisions may be necessary derives solely from the fact that the proposed Charter of the International Trade Organization has not been submitted and will not be submitted until next year. Moreover, the fact that those who oppose the bill with its proposed amendments do not believe that the heavens will fall on a one-year extension will be evidenced before the day is over by the offer of an amendment for an extension of precisely that length of time.

As to the claim that the bill mandates a single standard—noninjury to domestic producers—for making an agreement, this is easily refuted by the bill and the proposed amendments. The bill does not say so. On the contrary, section 3 (c) of the bill maintains the direction to the President contained in section 4 of the act that before concluding a trade agreement—

> the President shall seek information and advice with respect thereto from the Departments of State, Agriculture, and Commerce, the National Military Establishment, and from such other sources as he may deem appropriate.

* * *

Mr. LUCAS, Democrat, Illinois. Does the Senator believe that under the language the Commission would have no right to take into consideration injury or threat of injury to a producer?

Mr. MILLIKIN. I think I made it very clear that in obtaining the evidence the Commission must necessarily listen to all individuals, but in making its recommendation it must translate its recommendation to the whole class. Thus an injury to a single businessman might or might not constitute a ground for affording relief for the entire class.

Mr. GEORGE, Democrat, Georgia. Mr. President, let me respectfully suggest to the distinguished chairman of the committee that the complainant is going to be someone who is injured, and is very likely to be a high-cost producer.

Mr. MILLIKIN. It is rather lengthy, but I should be delighted now to go into the way the Tariff Commission handles the matter now.

Mr. LUCAS. I am not talking about the way it does it now, I am talking about the language in the bill.

Mr. MILLIKIN. It follows this precise language.

Mr. LUCAS. If the Senator can show me that it follows the precise language, I should like to see it.

Mr. MILLIKIN. I shall do that.

Mr. LUCAS. That is one of the questions raised in the committee, as the Senator well knows, by the able Senator from Ohio [Mr. TAFT].

Mr. MILLIKIN. I shall be very glad to do it before I have finished my discussion.

Mr. LUCAS. I undertake to say, if I may, that under the language of the bill the Tariff Commission will not necessarily be compelled to do what the Senator from Colorado suggests.

Mr. MILLIKIN. I wish to say to the distinguished Senator from Illinois that the purpose of the bill is as has been explained. The language of the bill follows the language of the Presidential escape clause order, and the procedures of the Tariff Commission make it very clear that they do not invoke the escape clause because a single person may be injured. The point is whether the whole class of producers, the particular class of producers, is being injured or is threatened with injury.

Mr. LUCAS. I do not agree with the Senator at all, and I contend seriously that under the language of the bill an inefficient producer of this country can be protected by the Tariff Commission if it so desires.

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Mr. GEORGE. In the first place, I disclaim now, as I have disclaimed since 1934, that it was the view of those who proposed the Reciprocal Trade Agreements Act that this country should go to a completely free-trade basis. That has never been my view. It has always been my view that protection was necessary with respect to certain industries, and with respect to certain branches of agriculture.

I very well remember that in the long tariff fight of 1929 and 1930, when the Smoot-Hawley bill was enacted, the distinguished Senator Borah, of Idaho, voted against it. The distinguished Senator Norris, of Nebraska, voted against it, although they both believed in protection. I remember hearing the distinguished former Senator from Iowa, Mr. Cummins, rise in his place in the Senate and make the statement that although he was a life-long protectionist, he never had been able to vote, on final vote, for a single Republican tariff bill when it reached a vote in the Senate.

That was the situation which we faced after the 1930 tariff act. Something had to be done if we finally were to be able to extricate ourselves from the depression into which we had plunged with our tariffs. We did not want to bring a tariff bill back to the Congress for action, because we knew what that would mean. It is impossible to escape logrolling. It is impossible to escape all the things that go with congressional consideration of a tariff bill in a country so vast and varied, with industry so widespread. So, in 1934, we undertook to improve our trade relations with foreign countries through the Reciprocal Tariff Act.

It is well to note the real standard of that act, and compare it with the narrow obligation placed upon the Tariff Commission in the bill now presented. The language of the act is as follows:

> For the purpose of expanding foreign markets for the products of the United States.

I omit certain language in parentheses which is now wholly immaterial—

> by regulating the admission of foreign goods into the United States in accordance with the characteristics and needs of various branches of American production so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets by affording corresponding market opportunities for foreign products in the United States, the President, whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States and that the purpose above declared will be promoted by the means hereinafter specified, is authorized from time to time—

To negotiate new tariff rates between our country and foreign countries.

Let us take a look at the language of the bill:

> Upon receipt of such list the Commission—

Meaning the United States Tariff Commission—

> shall make an investigation and report to the President the findings of the Commission with respect to each such article as to (1) the limit to which such modification, imposition, or continuance may be extended in order to carry out the purpose of such section 350 without causing or threatening serious injury to domestic producers of like or similar articles.

The distinguished chairman of the committee says that does not deprive the President of his power to take the opinion of the Department of Labor, the Department of Commerce, the Department of Agriculture, the State Department, or any other agency of government. So it does not, and I cheerfully concede it. But when the Tariff Commission alone is given the power to fix the upper and the nether millstones between which the President must operate, it is much like going over the head of the umpire and asking all nine of the players on the team what they think of a given play. What they think amounts to nothing; what the umpire says is the law, and prevails.

What the Tariff Commission would do in this case would be to fix the maximum and the minimum without regard to any other consideration than the plain and explicit language of this bill, if it should pass "without

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causing or threatening serious injury to domestic producers of like or similar articles."

It is true that under the bill the President can call on the Secretary of State; he can call on anyone on the street; he can call on all the economists in the United States; but the Tariff Commission, and the Tariff Commission alone, will say to him how high the rate shall be and how low it shall be. Within the limitations fixed, he must act, or else disregard altogether the findings of the Tariff Commission, and send his report to the Congress, and no President would ever dare take that course of action. No President would expose himself to the criticism and the virulent attack that would necessarily follow if he disregarded the solemn judgment of an agency of the Congress, to which the Congress would say, under the provisions of this bill, "You fix the maximum and the minimum limitations within which the President must act."

BIPARTISAN COMMISSION

Then what have we when we come to the Tariff Commission provision? I do not impugn their motives, but, under the law, the Tariff Commission is composed of three Democrats and three Republicans. It is a bipartisan Commission, made up in the way I have already stated. Before the President could move to reduce any tariff duty, however high, or to obtain any other trade benefit from any other nation, under the bill, he would have to submit to the Tariff Commission the entire list of all the articles which he intended to cover. He could not move otherwise. The Tariff Commission would have to hold hearings and hear arguments. Believe me, Mr. President, those arguments would be almost interminable.

So the arguments will be long; the briefs will be long; the deliberations of the Tariff Commission will be long. Until the Tariff Commission has made its report, the President's hands will be tied.

Suppose the Tariff Commission divides three to three—and it already is divided; there is no use in quibbling about that. We shall find them divided the second day after this bill is enacted. Suppose the Commission divides three to three. In that case the Commission never makes a report, for in order to make a report to the President the Commission must have four of its six members in favor of the report, and until the Tariff Commission makes its report, under the language of the committee bill, the President's hands remain tied. Do you think, Mr. President, that there will be any readjustment of tariffs under those circumstances?

The Reciprocal Trade Agreements Act was not passed as a tariff act. It is an amendment to the existing Tariff Act. It was passed because the rates had been placed so high that twenty-odd nations had retaliated against us. World trade was virtually stagnant. Perhaps the tariff was not solely or wholly to blame, but it was a powerful factor in bringing about that situation. . . .

When we look at the language of the pending bill, and recognize that only the Tariff Commission is to determine whether any producer is to be injured or threatened with injury in fixing the maximum and minimum rates to which I have referred, we are bound to realize that the Tariff Commission will be going back to the organic act under which it was created. In the Reciprocal Trade Agreements Act there is not a line or a word that looks to the functioning of the Tariff Commission as a Commission. The Tariff Commission, of course, is to be consulted by the President. The Tariff Commission, through its chairman, is to sit on the Interdepartmental Board that finally makes its recommendations to the President. The Tariff Commission has a right to have its say so—but along with the Secretary of Commerce, the Secretary of Labor, the Secretary of Agriculture, the Secretary of State, and such other heads of departments as are concerned about it. The standard and the basis for Tariff Commission action as such cannot be found in the Gearhart bill; it is not there. It cannot be found in the committee bill; it is not there, except in the language I have read, namely, that in the fixing of maximum and minimum rates, they shall take care not to injure any domestic producer or threaten him with serious injury. I understand that some amendment is to be offered to that language. In my view of it, the language is material but not at all controlling.

The inquiry the Tariff Commission would

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make would be respecting injury to a domestic industry or branch of agriculture, the proposed language being: "Without causing or threatening serious injury to domestic producers of like or similar articles." That ought to be placed in the act. But with that included, what is the standard that must control the Tariff Commission as a Commission? The Smoot-Hawley Tariff Act. One is driven inexorably to that act. What does it say? It says the Commission must, in making its recommendations to the President, base its findings upon the costs of production. It not only says that, but—

> If the Commission finds upon any such investigation that such conditions cannot be equalized by proceeding as hereinbefore provided, it shall so state in its report to the President and shall specify therein such ad valorem rates of duty based upon the American selling price as defined in section 402 (g) of the Smoot-Hawley Tariff Act.

To make doubly clear what the Smoot-Hawley Tariff Act means in setting up the organic law under which the Tariff Commission acts, I call specific attention to section 336:

> In order to put into force and effect the policy of Congress by this act intended, the Commission (1) upon request of the President, * * * shall proceed to make investigation and a report.

This language also occurs in the section:

> The Commission shall report to the President the results of the investigation and its findings with respect to such differences in costs of production. If the Commission finds it shown by the investigation that the duties expressly fixed by statute do not equalize the differences in the costs of production of the domestic article and the like or similar foreign article when produced in the principal competing country, the Commission shall specify * * * .

Additional duties may then be imposed.

Mr. President, if I were presenting this case to any court of law in the world I should rest confidently upon his assertion: There is no standard for the performance of the duty required of the Tariff Commission as a commission, save in the Smoot-Hawley Tariff Act. Of course that was not the beginning of the Tariff Commission. It had its origin prior to that. But the present organic law of the Tariff Commission is to be found in the Smoot-Hawley Tariff Act, and in that act alone. When the Commission is called upon to find whether the producer is going to be hurt seriously, or threatened with serious injury, by the importation of some foreign commercial article, the Commission will go back to this narrow basis, the single consideration of the cost of production.

It is true the President may then call in the nine men who are playing baseball with him, and he may ask them about it, but they cannot upset that ruling; they have nothing to say on that point. It is true he may decline to act upon the Commission's recommendation, and it is true that he may overrule it, but I have already said that no President would overrule it and subject himself to the bitter, harsh criticism to which he would be subjected in a country, Mr. President, where we sometimes have both politics and differing political views.

Mr. LUCAS. Mr. President, will the Senator yield?

Mr. GEORGE, I yield.

Mr. LUCAS. On the cost of production, does the Senator agree with me that the Tariff Commission, if they have to follow that rule—and I agree that they do—would have a tremendous task on their hands, with some trade agreements containing hundreds of articles upon which the peril points should be determined?

Mr. GEORGE. Undoubtedly. But the Tariff Commission, after the passage of the Smoot-Hawley Tariff Act, and until 1934, made very few recommendations to the President either for increases or decreases in important duties or rates. After deliberating for a long, long time, they finally came up with a recommendation that the tariff duties on Mexican live quails should be reduced. Nothing will be done, if reliance is placed upon the Tariff Commission for the performance of the whole job. The Commission has its functions, it ought to be brought into the picture, but it ought not to be given the whole say-so in the matter.

I now invite attention, particularly of the distinguished chairman of the committee, to

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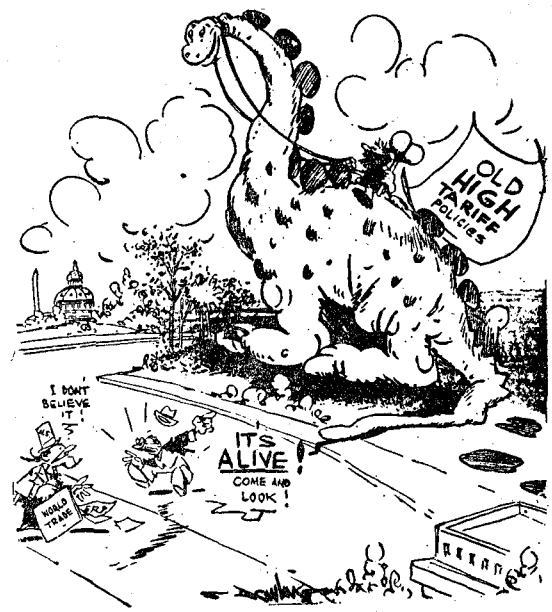
another matter. At Geneva on October 30, 1947, there was signed an agreement known as the General Agreement on Tariff and Trade. I am not referring to the charter. Twenty-three nations, including the United States, were parties to the agreement. But not all the nations of the earth were parties, indeed six of the countries included in the western European agreement, who are recipients of our aid and assistance under E.R.P., if I might call it such, have no agreement with us. We are trying and are hopeful the six countries at least will come into the multilateral trade agreement negotiated at Geneva.

Let us suppose, Mr. President, that we are successful in having Portugal or Austria or Ireland or Italy or Greece or Denmark, the six western European nations who are receiving benefits under the legislation we originally passed, come into this general agreement. Let us suppose that one of those nations enters into this general agreement. What is the result? We have adopted and have followed scrupulously the policy of the most-favored-nations clause in treaties. Since we launched upon the reciprocal-trade-agreements program, we have striven constantly to deal with all nations upon that basis. Indeed, the very concepts of a reciprocal-trade arrangement or trade-agreement program required us to say that we would extend like treatment to all nations. The moment that Greece comes in, or, let us say that Italy adheres to this general agreement negotiated at Geneva on October 30, 1947, every single binding made by the United States, every binding on the free list, and every binding of duties at the present or existing rates, would be open to inquiry by the Federal Tariff Commission. There are literally many thousands of them, because it must be remembered that the vast majority of articles and products imported into the United States are on the free list. It must also be remembered that in literally thousands of instances in this multilateral agreement we have bound ourselves not to increase duties. Yet, all of them would be open if even little Greece came in and wanted to subscribe to this multilateral trade agreement.

The multilateral trade agreement may contain some defects. I should be greatly surprised if it did not contain some defects. But the multilateral trade agreement is the result of reciprocal tariff negotiations. It represents at least the high tide of accomplishment in that field up to that hour. I am not overstating the matter. The Tariff Commission simply would not be able to advise the President with respect to every article upon the free list or every duty continued at the existing tariff levels within the short period of time indicated in this bill and in the House bill as the desirable extension period.



Dowling in the *Washington Post*

Mr. President, there is, in my opinion—and I must always speak frankly—a very substantial reason why the Trade Agreements Act should not be continued for more than one year, and that is that during the early months of 1949 we shall be called upon to consider the International Trade Organization charter, which is a very important matter. It seems to me that the two, while not necessarily dependent upon each other, are so merged and integrated as to make consideration of the charter negotiated finally at Havana in March of this year, and the further extension of our Trade Agreements Act, a concurrent action.

I turn with all seriousness to one phase of the question, because I do not have the time to discuss as I otherwise should like to do. I turn to an act which Congress passed this year and

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which the President approved on April 3, 1948. We called it the E.R.P. Act, though that is not its official title. I now read from section 102 (b) of that act:

> (b) It is the purpose of this title to effectuate the policy set forth in subsection (a) of this section by furnishing material and financial assistance to the participating countries in such a manner as to aid them, through their own individual and concerted efforts, to become independent of extraordinary outside economic assistance within the period of operations under this title, by—
>
> (1) Promoting industrial and agricultural production in the participating countries;
>
> (2) Furthering the restoration or maintenance of the soundness of European currencies, budgets, and finances; and
>
> (3) Facilitating and stimulating the growth of international trade of participating countries with one another and with other countries by appropriate measures including reduction of barriers which may hamper such trade.

Looking into the body of the act, at page 17, section 115 (3), we find this is what these countries must do:

> Cooperating with other participating countries in facilitating and stimulating an increasing interchange of goods and services among the participating countries and with other countries and cooperating to reduce barriers to trade among themselves and with other countries.

What sort of people are the people of these United States when we say we want Europe to get back on her feet, that we want to strengthen the economy of the western European nations, and when we call upon them in the explicit language of the E.R.P. Act to lower the trade barriers between themselves and with foreign countries, and then say, "To the winds with the Reciprocal Trade Agreement Act," the primary purpose of which was to talk with foreign countries and see how much they would reduce tariff barriers in consideration of a reduction upon our part of rates and restrictions which those nations had found burdensome?

Mr. President, I come now to what I consider the fundamental concept involved in this legislation, and to a matter which I think transcends every other thing that may be said on this occasion.

In the highly complex civilization in which we live, and in our highly industrialized nation, the deep, underlying domestic policies which are adopted necessarily control our foreign policies. I do not think anyone can take exception to the statement that at the last, the foreign policy of every great trading and commercial nation is controlled by the deep, underlying domestic policies which it follows.

We have fought against improper restraints of trade, we passed laws against contracts in restraint of trade, we passed antitrust laws, because we had learned, as every other greatly industrialized nation learned, that economic and political concentration within the nation made it necessary for the nation to adopt a domestic policy, consistent with the general welfare of all the people. In large measure the effort to prevent even combinations of labor to the injury of the public was but an expression of the same philosophy.

America's foreign policy will not be written and cannot stand upon the basis of the Atlantic Charter alone. America's foreign policy will not be written in the eloquent language of the United Nations Charter, negotiated and concluded at San Francisco. It will not be written in the magnificent efforts we in the Congress are making to relieve our people at home and people of the world around. It will be written, it will finally be controlled, by the deeply imbedded, underlying directing forces of our domestic policies.

So when we concede all that can be conceded to the bill as it passed the House, and to the committee bill, in this instance, it is a throw-back to domestic policies, which in but a short time will undermine our foreign policies.

Mr. President, let me show to the Senate what I mean. In the hearings on the bill, Mr. Holman, Secretary of the National Cooperative Milk Producers Federation, appeared as a witness. He was a singularly frank and well-informed witness, and I have no criticism to make of him. I propounded to him a question:

> Senator GEORGE. Without arguing the question, Mr. Holman, as to whether you are right or wrong in advocating repeal, you are to be complimented on your frankness.

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Mr. HOLMAN. I thank the Senator.

Senator GEORGE. In saying that you do favor straight repeal of the act you are to be complimented. You therefore favor the House bill because it moves in that direction?

Mr. HOLMAN. That is correct, sir.

That is the language of a frank advocate of the bill. He said he favored the House bill because it moved in the direction of straight repeal.

Mr. Holman was not an exception. The philosophy of all the other testimony comes down to the same thing; and in the face of what, Mr. President? Certainly Mr. Arthur Besse, who is known to at least all the wool growers and wool manufacturers of the country and perhaps of the world, an intelligent and an honorable man, said this of the effect of the Reciprocal Tariff Act and the agreements negotiated thereunder, in response to my inquiry:

Senator GEORGE. Your industry has suffered no ill effects?

Mr. BESSE. We have never claimed that.

That is the testimony of every witness, or it is the philosophy of every witness who appeared before the committee. There are anticipated injuries, it is true, but no actual injuries.

* * *

Mr. ROBERTSON, Democrat, Virginia. One indication of the success of the reciprocal trade program is the fact that its opponents no longer assault it by frontal attack. We have before us a bill to extend the act. But it is significant to note that the bill came to us at the eleventh hour, on the eve of automatic expiration of the power to negotiate trade agreements.

The debates to which I previously referred took place in February or at latest in May of the years in which the act previously came up for renewal, but this time a bill is brought out in the House at the very end of May and is passed without any public hearings having been held on the bill, and after only brief and restricted hearings in executive session even on the general policy of trade agreement extension.

As the result of the hearings held by the Senate committee in the limited time at its disposal amendments have been made which, in my opinion, very materially improve the bill, but I still cannot help but regard with grave suspicion legislation which has been sponsored by those who in the past have consistently been enemies of the program which it purports to continue.

I think those of us who believe in and have advocated the expansion of mutually beneficial world trade must examine the pending bill with a critical eye and try if we can to eliminate those features which would pave the way for eventual abandonment of the program and a return to such a schedule of rates as we had in the Smoot-Hawley bill.

Let us consider, then, just what this bill would do to the program.

MAJOR DEFECTS

The major defects, as I see it, center around the way in which it proposes to alter the functions of the Tariff Commission in connection with the making of agreements.

First. If even a pretense is made of carrying on the reciprocal trade program it will entail added expense for enlarging the staff of the Tariff Commission. The Commission has said it is not adequately staffed to carry on functions already assigned to it, and it is absurd to assume that it could begin to do the job of making detailed studies of possible effects of tariff changes required by this bill without additional personnel.

It may be said that the additional appropriation of from $500,000 to $1,000,000 that would be needed to give the Commission the staff it says it would require is not large, considering the importance of the program. But the significant thing is that the bill contains no provision for any such expansion. Could this be an oversight, or is there a willingness on the part of the sponsors of the measure to give the Tariff Commission an impossible task in trying to carry out the provisions of the bill in a reasonable manner?

Second. It will lead to endless delays in arriving at any agreement. Under the existing law a trade agreement can be made on the basis of a reasonable supposition that it will be beneficial, and if it should prove damaging, relief can be given through an escape clause.

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Under the pending bill, the Tariff Commission would be required to satisfy itself in advance that no serious injury to an industry would be threatened. Naturally the Commission would not be willing to make such a theoretical decision without protecting itself by elaborate studies, including comparisons of costs of production in this and other countries.

In the past the Commission has taken from two to four years to find the cost of production of an article in the United States alone, without even considering foreign costs, and often cost factors have materially changed in less than two years, to say nothing of four.

It seems evident that sponsors of the bill expect factual studies to be made by the Commission to determine production costs. But if this were done for each and every item considered for inclusion in a trade agreement there would be interminable delay involving thousands of man-hours in fruitless searching for the unattainable. . . . .

Moreover, the outstanding tariff experts of the country are almost unanimous in their criticism of the cost formula as the sole criteria for tariff rate making.

Some of the difficulties involved are alluded to in a letter written by the present Chairman of the Tariff Commission to Representative DOUGHTON on May 17, 1948, in which he said:

> Cost studies are, as a practical matter, of somewhat limited usefulness in tariff making, not only because of the time required to make such studies but also because of the character of the decisions which have to be made in resolving the complex questions which arise regarding the comparability of the domestic and imported products, the allocation of general and overhead costs to particular joint products or by-products, the method of averaging costs of different producers, the appropriate markets to which to compute costs of transportation, and other matters.

Yet, if the sponsors of the pending bill do not refer to this kind of study, they must be content with the kind of fact-finding carried on by the Commission in connection with the reciprocal trade agreements program during the past 14 years. If that is true the net effect of this portion of the bill would be to shift the policy-making responsibility from the administration to the Commission, a thoroughly unsound procedure.

Third. Because of the inherent difficulties of the tasks which the bill would assign to the Tariff Commission, the result is almost sure to be nullification of the program, unless the time limit is extended by more than a year. The one-year extension will not allow time to get anything done, and the prospects for success in arriving at agreements will be so discouraging that little progress will be made toward any future negotiations. Other nations will be reluctant to deal with us while our attitude remains so uncertain.

Fourth. The Tariff Commission, as a bipartisan body of men serving limited terms, will be hopelessly handicapped by the pressures to which the Commission and its staff will be subjected. To expect a bipartisan agency with equal representation on both sides to arrive at policy decisions is to manifest a lack of understanding of the nature of the questions under discussion. With a membership of six —three Republicans and three Democrats— it is little short of naive to expect that on the controversial questions of real importance, anything other than an evenly split report can be expected. Such split reports can be extremely valuable in guiding the Congress and the President in arriving at policy judgments by pointing up the issues. The bipartisan mechanism has been highly useful in assuring that the fact-finding work of the Commission's staff is kept objective and free of partisan or doctrinal bias. But an evenly divided Commission can hardly be expected to arrive at the policy judgments itself. To expect that it could is to confuse the science of fact finding with the art of politics. The net effect of this change, therefore, would be to block effective action.

If this bill really is intended to provide a workable mechanism, and is not merely a device for forestalling action, it would be well to reorganize the Tariff Commission so as to provide for an odd, rather than an even, number of Commissioners. Evenly split bodies are intended to insure impartiality in fact finding, but they are not efficient in reaching decisions on controversial subjects. On the other hand, with three or five Commissioners, there

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would be greater assurance that some sort of recommendation would be made.

To expect the Tariff Commissioners to display imagination in the setting of liberal levels would be to ignore the realities of the situation. Tariff Commissioners are appointed by the President, with the approval of the Senate, for six-year terms, at a salary of $10,000 a year. To expect bold policy leadership under such an arrangement is excessively optimistic, to say the least.

If the Tariff Commissioners are interested in holding on to their jobs, they will play safe. If bold leadership is wanted via this route, the Tariff Commissioners would have to have higher rank than they now have. They would have to have something approaching life tenure and salaries commensurate with their responsibilities.

The Tariff Commission has been able to survive and to grow in usefulness in the years since its establishment in 1916, largely because it has been kept out of the political limelight. Tariff making is highly charged with politics. All sorts of pressure groups are ever ready to go the full way in getting what they are after for their own interests. They stop at nothing. To plunge the Tariff Commission into the arena of actual rate determination would, therefore, bring to bear on the Tariff Commission and its staff unbelievably strong group pressures.

Fifth. The talents of the Tariff Commission members will be wasted by keeping them from participating in the making of agreements. Under this bill they will be limited to rate-fixing functions, and will no longer have a share in the bargaining revolving around these rates.

Sixth. At the same time, other agencies of the government will be deprived of a vote in the determination of rates in fields where their knowledge is greater than that of the Tariff Commission; and this, too, represents a net loss.

Some of the most successful negotiating that has been done here and abroad in behalf of the United States in the past 14 years has been by members of the Tariff Commission and its staff. To deny these services to the administration in such an important task does not make sense, nor does it make sense to substitute the Tariff Commission, or any other single agency, for the interdepartmental machinery, when it comes to recommending changes in tariff rates.

One of the virtues of the reciprocal trade agreements machinery, as it has evolved during these past 14 years, is that it has been interdepartmental. All points of view—those of agriculture, industry, labor, consumers, and the Military Establishment—have had a chance not only to be heard but also to vote on decisions. The result is balanced judgment, as close to nonpolitical as can reasonably be expected. The Gearhart bill would do away with all of this, and would substitute the Tariff Commission as the sole agency to make the factual studies, to hold the public hearings, and to make recommendations to the President. . . . .

[The bill] will seriously damage if it does not lead to the end of a program which has been an important instrument of foreign policy.

We will be in a poor position to bargain with representatives of other nations which know that the Congress has refused to extend the act for more than a year and that at the end of the year it may be abandoned.

In this connection we should not overlook the statement of Secretary of State Marshall when he told the Ways and Means Committee:

> Any serious weakening of the Trade Agreements Act at this critical period in world affairs would almost certainly be regarded by other countries not only as a surrender of our leadership in the international economic field, but as a repudiation of much that has been accomplished under our leadership in that field.

As General Marshall has indicated, taking a step toward abandoning our reciprocal-trade program—and that is what passage of the bill in its present form represents—would sabotage our program of international cooperation, turn the European recovery program into little more than a relief program by discouraging the trade on which permanent recovery must depend, and would practically junk the International Trade Organization, which we have sponsored.

* * *

Mr. VANDENBERG, Republican, Michi-

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gan. Mr. President, I am sure I do not need to make it plain that when I endorse the pending measure, I do not believe I am, in the first place, violating our bipartisan foreign policy; in the second place, that I am undercutting our foreign-aid program; or, in the third place, that I am veering back toward an economic isolationism in which I do not believe. I am bound to say, with great candor, that I think arguments trying to impute these results to the pending proposal are what I believe lawyers call irrelevant, incompetent, and immaterial.

Mr. President, when this bill came from the House, I issued the following statement, which I wish to read into the RECORD:

> The reciprocal trade agreement principle should be preserved unweakened. It is indispensable in today's world. This rules out any congressional veto on tariff rates. I shall not support this feature of the House bill.
>
> But it does not rule out legitimate procedural precautions to prevent excessive tariff reductions which threaten domestic industry and labor. I favor the practical use of the United States Tariff Commission to set the safety limits within which the President may freely negotiate. This is in the House bill. But if the President finds it is in the national interest to negotiate beyond these limits, it is sufficient restraint to require him to publish the Tariff Commission recommendations with his disclosure of their breach. This was recommended one year ago by Senator MILLIKIN and me in connection with the Executive order issued at that time.
>
> The length of extension of the act is of no great consequence. There are no more agreements to be presently negotiated. International trade practices are in constant flux and our attitudes must be responsively resilient. Since the character of the act will always depend upon administrative judgments, the real decisions will be made after the next elections. I prefer an extension of three, or at least two years for the sake of underscoring what is now an indispensable principle in healthy trade for us and our customers. But the time of the extension is largely academic under existing circumstances.

Mr. President, the pending proposal substantially meets the specifications set down in this statement. I shall support the proposal without any fear that it injures the reciprocal trade agreements principle in the slightest degree. On the contrary, I think the proposal strengthens the principle by eliminating some of the complaints against it.

There is nothing incompatible between fidelity to the reciprocity principle and fidelity to legitimate, minimum tariff protections for American industry, agriculture, and labor where reasonably required. There is nothing inconsistent in supporting procedures which protect both of these objectives. On the contrary, the reciprocal trade agreements principle is actually strengthened if domestic opposition to it is sharply reduced by procedural improvements which meet criticisms and remove fears without impairing essential executive authority to make tariff bargains pursuant to the congressional act which we here extend.

In my opinion this is precisely what the pending proposal does, and, with great respect, I think the State Department's stubborn view to the contrary is unfortunate for the sake of the cause.

The only innovation in the pending proposal is to require the United States Tariff Commission to advise the President of "peril points" below which a tariff negotiation cannot go in respect to the commodities involved, without threatening serious domestic damage; and then, if the President still thinks it is in the public welfare to go still lower, to require him to report the facts to Congress.

The President is not bound by the "peril points" set by the Tariff Commission. He is just as free as he is today to negotiate the full 50 per cent tariff reduction authorized by law if it be his judgment that other considerations in the public interest are persuasive. His sole restraint, if any, lies in the requirement to report to the Congress from which he gets these delegated bargaining powers. I submit that this becomes a restraint only in the event of a reckless or capricious use of his bargaining power which would make such a report embarrassing. The American domestic economy has a right to some element of at least indirect protection under such circumstances. If it is to have any at all it could not have less than is here proposed.

If this formula gave the Tariff Commission

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the final authority—making it superior in power to the President—I would not support it. I would agree that it would impair the act. I would agree that it would be a bad thing thus to rest international trade reciprocity exclusively on Tariff Commission mathematics or attitudes. But it does nothing of the sort. The President would remain a free agent, as in the act that has just expired.

If this formula gave Congress the last word in respect to rates, I would not support it. Tariff rate-making in Congress is an atrocity. It lacks any element of economic science or validity. I suspect the ten members of the Senate, including myself, who struggle through the 11 months that it took to write the last Congressional Tariff Act, would join me in resigning before they would be willing to tackle another general Congressional Tariff revision. But the pending formula does not bring reciprocal rates back to Congress for action. It merely brings them back, under occasional extraordinary circumstances for information.

I would not want to think the Reciprocal Trade Agreements Act has to be afraid of Congressional knowledge as to what goes on within its jurisdiction, although I must confess, Mr. President, that I have been shocked, in the courts of today's debate, to hear the able chairman of the Senate Committee on Finance assert that his committee was denied access to the hearings of the Interdepartmental Committee, upon whose recommendations the recent Geneva tariff agreements were written. If we have reached a point where Congress not only cannot ask for information, but is denied existing official information upon which final action is taken, the time certainly has come to look around for some new light-letting device. We cannot proceed indefinitely with our economy at the mercy of an iron curtain.

There is nothing novel or sinister in using the Tariff Commission for the precise purpose for which it was created. Turn to page 726 in your current Congressional Directory and you will find, in the official definition of its duties, that the first job for which it was created was "to fill the long-felt need for an independent organization to supply factual information"—to whom?—"to the President and the Congress." That is the function which this pending proposal seeks to have it exercise. I am sure no President will find himself handicapped by such advice.

I happen to be one of those, Mr. President, who believes the reciprocal trade agreements practice is very necessary in this post-war world. There are many among us, however, who feel otherwise. I know that my distinguished friend, the chairman of the Senate Finance Committee, among others, has serious misgivings on this score in many aspects. When they are willing to seek a meeting of minds on such a basis as is here proposed, which leaves the reciprocity principle intact, I think they themselves deserve "reciprocal" cooperation from the friends of the act. I think they deserve this consideration because except as we can find a meeting of minds there will be no legislation upon this subject at the present session; and I do not prefer to contemplate that alternative.

If it be argued that this consultation of the Tariff Commission will complicate and delay the bargaining process, I reply that I think the Commission can function just as expeditiously as can the interdepartmental committees, which are presumed to be part of the existing process under the old law. Furthermore, there are few—if any—new agreements to be negotiated in the immediate future; and this is the best possible time to experiment with a device which has no other purpose than to underscore the fact that, though our interest in foreign trade is great, there comes a competitive point where we dare not ignore the domestic preservation of our wage scales, our industrial and agricultural production, and our markets here at home.

The only thing in the text of the proposal as reported which has given me any concern is the fact that the Tariff Commission, by a failure to act expeditiously, might operate, in the net effect, as a sort of veto upon the free use of Presidential authority.

* * *

Mr. LUCAS. Every member of the Finance Committee with the exception of the able Senator from Pennsylvania [Mr. MARTIN] has voted consistently against extension of these trade agreements when they came up from

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time to time. Their basic philosophy is entirely different from the philosophy of those who believe in the reciprocal trade agreements. The concept of high tariff is involved in this amendment, notwithstanding the opinion of the Senator from Michigan to the contrary. Let anyone who thinks it is not read the records and the speeches of those who in the past have consistently condemned and attempted to crucify the reciprocal trade agreements, both in the House and in the Senate.

What does Representative GEARHART say about this amendment? He said, "It is swell. I got 95 per cent of what I offered and was passed in the House of Representatives. The only thing that was eliminated was the veto power of the Congress of the United States over the President's decision on trade treaties."

Mr. President, a meeting of the minds on these trade pacts would be helpful and constructive at this juncture in national and international affairs. We have it on one phase of the foreign policy of this country; but I must most emphatically disagree with the Senator from Michigan when he says that this has nothing particularly to do with our bipartisan foreign policy. I undertake to say that this is the other half of the Marshall plan. The same principle was written into the Marshall plan, as the able Senator from Georgia pointed out when he read the words that the Congress wrote into that legislation, telling the countries of Europe what they had to do in the way of cooperation, in the way of eliminating trade barriers, in the way of trading with one another, in the way of lowering their tariffs—the very thing that has been accomplished under the reciprocal trade agreements program.

Mr. President, this program is most vital to the bipartisan foreign policy of this country. The bill before us is indefensible and wholly unjustifiable. That is especially true in view of the fact that every witness who appeared before the Finance Committee told us that his industry was receiving no injury or threatened injury, and that it had received no injury for 13 years under the reciprocal trade-agreements program. I cross-examined practically every witness.

Mr. President, what is all the shooting about? Where is the injury?

Ah, Mr. President, the shooting is over the basic philosophy involved in the Hull trade programs. The same interests to whom I have referred are getting their nose under the tent through this amendment, and their purpose is the ultimate destruction of the trade program. We shall not have any trade program if this amendment goes through. That is exactly what some interests want. We might as well not have any program as to take this amendment as it is.

Who supports the renewal of this program without any crippling amendments? Let me read them: United Textile Workers of America; United States Associates of the International Chamber of Commerce; Women's Action Committee for Lasting Peace; American Chamber of Commerce in France—that was the American Chamber of Commerce meeting in France in April 1948—National Peace Conference; Citizens' Committee for Reciprocal World Trade; National Women's Trade Union League; National Foreign Trade Council; American Farm Bureau Federation; National Farmers' Union; Importers' Association of Chicago; Customs Brokers and Forwarders' Association; Small Business Advisory Committee, and many, many other groups in this country are supporters of the reciprocal trade program.

The only individuals who testified before our committee who were against it were: Dr. Robert F. Martin, executive secretary of the Vitrified China Association, and Arthur Besse, of the National Association of Wool Manufacturers, who advocated the passage of House bill 6566, and was frank enough to say that he wanted all this legislation repealed, and wanted to return to the good old days; Charles Holman, secretary of the National Cooperative Milk Producers Federation, who testified definitely—and the Senator from Michigan should have read his testimony—that this bill points in the direction of the good old logrolling days of the Smoot-Hawley tariff, and he was glad that it did; Mr. H. Wickliffe Rose, representing the American Tariff League of New York, a group of extreme protectionists who all these years have had headquarters managed, operated, and financed by the special interests of this country

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who have continuously and constantly challenged and threatened the reciprocal trade program, and who are now doing so, also testified against the program. There were a few others, but not one reported an injury to the industry.

The Trade Agreements Act sponsored and developed by Cordell Hull has proved to be a sane and progressive course in sound international economics.

Irrespective of any opinion to the contrary, the pending measure involves the very philosophy of the Hull trade program—a philosophy upon which honest men have differed over the years. I hope that the American people will not be deceived in believing that this amendment is a mere change in procedure. Let no United States Senator believe that a vote for this amendment is a vote to renew or extend the Hull reciprocal trade program. There is as much difference as the difference between day and night. This bill in the nature of a substitute for the House bill strikes at the very heart of the present trade program. The amendment has its genesis in a high protective tariff for the producers of this Nation—an outmoded doctrine which brought this country to the abyss of economic destruction under the Smoot-Hawley Tariff Act of 1929. This is suicidal legislation for two-way trade in the international field, which is so necessary in the nation's over-all foreign policy.

MARSHALL PLAN

The Hull program is the other half of the Marshall Plan; and any deviation from a program that has been a success over a period of 13 years strikes a hard blow at international amity, peace, and good will.

It should be remembered that we are the greatest of all creditor nations; and if we expect our loans to be paid they must be paid in terms of goods. It must be obvious to any prudent mind that we cannot hope to export the great surplus of basic commodities produced in this country without also importing. If we sell abroad we must buy abroad.

When the Gearhart bill was passed in the House of Representatives, Secretary of State Marshall said that the crippling amendments preserved the form but destroyed the substance of the act. He further stated that it would be just as well to have no program at all as to attempt to operate under the provisions of the Gearhart bill.

Mr. President, it is difficult for me to understand why the Republicans in this Congress did not seek on out-right repeal of this act. I repeat—every member of the Finance Committee except the distinguished Senator from Pennsylvania [Mr. MARTIN] has in the past voted against the extension of the reciprocal trade program as is. Even though I am convinced that their theories of tariff and trade are outmoded and outworn, I respect their judgment and know they are honest in their convictions; but why it is that these same gentlemen use a flank attack instead of an all-out frontal attack is beyond me. Because, Mr. President, a majority of the American people cannot be fooled in an election year with a side-door move of this character.

Mr. President, the majority may retard this progress of international trade and tariff, but it cannot be crippled without returning to the smugness of economic isolation which in due course will destroy the nation, in a world in which our influence has become decisive. Mr. President, let no one seriously contend that this bill will not be a step in that direction, if today we pass this bill amending the Reciprocal Trade Agreements Act. That is what the witness Charles Holman said, and many other high protectionists agree with him—yes back to smugness and complacency, back to economic isolation. . . . .

* * *

Mr. BREWSTER, Republican, Michigan. Mr. President, I have here a compilation of rates under the various tariff acts of the last 50 years, and also of the variations in rates under the operation of trade agreements, showing a reduction from approximately 60 per cent under the last Smoot-Hawley bill to the current rate of 15 per cent. I ask that this statement of rates be incorporated at this point in my remarks.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

> I am advised that during the first full year after the Smoot-Hawley Act went into operation, the ad valorem rates were estab-

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lished at 53.2 per cent. In 1932, this jumped to 59.1 per cent and follows the following pattern up to 1939:

	Per cent
1933	53.6
1934	46.7
1935	42.9
1936	39.3
1937	37.8
1938	39.3
1939	37.3

For such value as the war figures and the immediate postwar figures may have, I am given the following data:

	Per cent
1940	35.6
1941	36.8
1942	32.1
1943	32.8
1944	29.7
1945	28.0
1946	25.5
1947	19.4
1948	15.0

It is pointed out that the rate in 1939 just before the war was almost exactly the same as that of the Fordney-McCumber Act of 1922.

The 15 per cent figure which Mr. Gearhart uses to show the 1948 status of this ad valorem rate is probably correct. I am told it will run somewhere between 12 and 15 per cent.

All these rates are based upon the dutiable list and do not take into consideration the items on the free list.

Average rates under various tariff bills of past 50 years:

	Per cent
Dingley Act, 1897	46.1
Paine Aldrich, 1909	40.7
Underwood, 1913	27.0
Fordney-McCumber, 1922	37.0
Smoot-Hawley, 1930	53.2
As modified under reciprocal agreements, 1931	59.1
As modified under reciprocal agreements, 1948	15.0

Mr. President, I think this brings home very clearly that at the present time we are living in a fool's paradise. It is quite true that no material injury has been done to most of the industries which might be affected as the result of the depression and the conditions incident to the war and its aftermath. I point out, however, that the government has suffered. In one specific instance it has come to my attention, in connection with potatoes. We voted approximately $75 million to take domestic potatoes off the market. Meanwhile, we imported 5 million bushels from Canada under reciprocal trade provisions, which cost us $5 million. It did not injure the potato producers, but it did injure the government.

I am asking only that the President shall carry out precisely the regulations he has laid down in his own instructions to the Commission and in his statement to the country. I read a quotation from the President's statement:

> The interest of domestic producers was carefully protected in the negotiation of each trade agreement. I assured the Congress when the Reciprocal Trade Agreements Act was last extended in 1945 that domestic producers would be safeguarded in the process of expanding trade. That commitment has been kept and it will continue to be kept.

If that statement is correct, then the proposed amendments constitute limitations in no way, and I trust that the Senate, in the interest of expanding the program, will see fit to enact the proposal of the Senator from Colorado [Mr. MILLIKIN], as otherwise there is certainly to be no extension of the law.

The State Department has long taken the position, when renewal of the Trade Agreements Act has been before the Congress, that nothing would be done under the act which would injure domestic producers. The President in his message to Congress of March 1, 1948, requesting renewal of the act, said:

> The interest of domestic producers are carefully protected in the negotiation of each trade agreement. I assured the Congress when the Reciprocal Trade Agreements Act was last extended in 1945, that domestic producers would be safeguarded in the process of expanding trade. That commitment has been kept. It will continue to be kept.

In furtherance of this policy the President in February, 1947, issued Executive Order 9832.

First. Action under the escape clause: Under the Executive order the Tariff Commission determines "whether, as a result of unforeseen developments and of the concession

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granted on any article by the United States in a trade agreement" an article "is being imported in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers of like or similar articles."

It should be noted that under the Executive order action by the Tariff Commission where injury has occurred or is threatened is taken after the agreement is in effect; under the Senate bill investigation of possible injury is made before the agreement is negotiated. Certainly no one who is really in favor of protecting domestic producers could object to the forehanded procedure provided in the Senate bill. It is certainly preferable to prevent injury by careful investigation before the agreement is negotiated than to attempt action after the agreement has been put into effect.

At best, action under the Executive order will be slow because, as provided in article XIX of the Geneva agreement, it is necessary to consult with all interested parties to that agreement before a recommendation of the Tariff Commission under the Executive order can be acted upon except "in critical circumstances, where delay would cause serious damage which it would be difficult to repair." What would be considered critical circumstances is not known, but action under the Executive order would be largely vitiated where consultation with interested parties was required.

It should be noted further, that under the Executive order injury or threatened injury must be the result of absolute increase in imports. This is a highly restrictive provision, particularly in a period of declining business activity. Why was this limitation inserted in the Executive order if the procedure under that order were intended to provide domestic producers with adequate protection? As a matter of fact, the Executive order is much more restrictive in this respect than the corresponding provision of the Havana Charter (article 40). Under the Charter injury or threatened injury can occur if the article is imported in relatively increased quantities, that is to say, it is not necessary to have an absolute increase in imports.

Second. Participation of the Tariff Commission: Under the Executive order a Commissioner of the Tariff Commission sits with persons designated by the Secretaries of State, Treasury, National Military Establishment, Agriculture, Commerce, and Labor on the Interdepartmental Committee on Trade Agreements which gives information and advice to the President respecting the concessions he will make in any proposed trade agreement. If any member of the Committee, including the Tariff Commissioner, disagrees with the action of the Committee on any proposal concession, he can file a dissent with the President specifying the point beyond which he considers any reduction or concession involved cannot be made without serious injury to the domestic economy. Not only does the Tariff Commission participate with the Trade Agreements Committee in the making of decisions on concessions, but for all practical purposes he participates through the Committee in the actual negotiation of the agreement.

Under this procedure a Tariff Commissioner, unless he dissents on most of the concessions, will find himself in the embarrassing position of having to take action as a member of the Tariff Commission under the Executive order, in cases where injury has been proved, which is contrary to the position he took as a member of the Trade Agreements Committee.

The State Department has repeatedly assured the Congress, when renewal of the Trade Agreements Act has been under consideration, that domestic producers would not be seriously injured by any action taken under that act. Either the Department meant what it said or it has misled the Congress. If the Department meant what it said it could not have any serious objection to the Senate bill, as this bill would do no more than assure to domestic producers somewhat more protection against serious injury than is provided by the Executive order.

Mr. BARKLEY, Democrat, Kentucky. Mr. President, I was a Member of the Senate, and of the Committee on Finance, when the Tariff Act of 1930, commonly known as the Smoot-Hawley Act, was passed. The enactment of that legislation was one of the most excruciating and tortuous experiences in the history of the United States Senate. Following the election of Mr. Hoover in November, 1928, the Committee on Ways and Means of

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the House of Representatives began in December, 1928 to hold hearings on a new tariff act. Bear in mind that from 1921 until 1928 there had been enacted two separate tariff acts under the jurisdiction and guidance of the party then in power, which happens now to be in power in the two branches of the Congress.

Those hearings began in December, 1928. They continued through the winter of 1928 and 1929. The House passed the bill. About the middle of 1929 it came to the Senate and was referred to the Committee on Finance. Hearings were conducted before the Finance Committee, followed by consideration of the bill on the floor of the Senate. Final enactment came on the 30th of June, 1930.

So the Congress was occupied almost exclusively, and certainly in a major sense, from December, 1928, to June, 1930, a period of more than 18 months, in the consideration of the last congressional tariff act. We talk about log-rolling and back-scratching. There was so much log-rolling on the floor of the Senate that we could see the logs rolling down the middle aisle. There was so much back-scratching that it was almost possible to see blood trickling down the backbones of Senators.

I know that Senators who say that they do not want to go back to the old system are sincere about it. I should dislike to think that there was a single member of this body who wished to go back to the old method of making tariffs. But whatever the desires of Senators may be, however much they may deplore any possibility or tendency toward a return to those days, what is proposed here today is a tendency in that direction. It is a backtracking of our record, toward the old-fashioned way of making tariffs.

When the bill came to the floor of the Senate in the spring of 1930, although the Republicans were in the numerical majority of the Senate, with respect to nearly every single roll call, on nearly every item and nearly every schedule, the rates were reduced, as compared with those imposed by the amendments reported from the Senate Committee on Finance. When the bill reached conference, the conferees being headed by the late lamented distinguished Senator from Utah, Mr. Smoot, joint author of the bill, all the high rates were restored, and the bill came out of conference in the same form in which it had been reported, and it finally became law.

I do not mean to indicate that that measure alone was responsible for the disasters which occurred in this country and the world; but undoubtedly we set an example for all the other nations. By that act we practically announced that we were self-sufficient, that we need not trade with other nations, that we constituted a self-sufficient, water-tight economic trade compartment, thereby setting the example for nearly all the other nations to do the same thing. I believe that that very situation and that very development made a very substantial contribution not only to the panic of 1929 and the early thirties but also by reason of its emphasis upon a narrow, hidebound nationalism all over the world, made a very substantial contribution to the conditions which brought about World War II.

When the 1930 act was before the Senate the prediction was made here that when it became law, within 60 days from that very hour, prosperity would be on its way in the United States, employment would be revived, the curling smoke of industry again would be seen on the horizon. The distinguished Senator from Indiana, then the majority leader, Mr. James E. Watson, of whom all of us were fond and still are fond in a very affectionate way, made that specific prediction when the conference report was under consideration in the Senate.

Mr. TOBEY. Mr. President, will the Senator yield?

Mr. BARKLEY. I am sorry that I am so limited in time.

Mr. TOBEY. I only wish to inquire whether his tongue was in his cheek when he said that.

Mr. BARKLEY. I was not looking at his cheek, but I was thinking of his head. [Laughter.]

In 1929 our foreign trade—in 1929, mind you, just a year prior to the enactment of the Smoot-Hawley Tariff Act, which the Trade Agreements Act was intended to soften—our trade with other nations amounted to $9,640,000,000, or only a little less than $10,000,000,000, in that one year. But after the Smoot-Hawley Tariff Act became effective in

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June of 1930 our international trade fell off until in 1932, it amounted to only $2,934,000,000. That was for both imports and exports. That meant that in two years, operating under the Smoot-Hawley tariff law, which it was said would revive everyone in the United States, we lost two-thirds of our international trade.

Mr. President, we know what conditions were at that time. We know that farm surpluses were piled up until no market for them could be found. We know that the industries of the country were shut down because no markets for their products could be found. In 1930 or 1931—I have forgotten the exact date—the Honorable Robert P. Lamont, then Secretary of Commerce in the administration of Mr. Hoover, in testifying before a committee of which I was a member, stated that a loss of $1 billion in American foreign trade meant a loss of jobs by 3 million American working people, no matter whether that loss of trade was in imports or exports; he said that much loss in our international trade meant the loss of 3 million jobs in the United States.

So it was in order, Mr. President, not to return to the old log-rolling, back-scratching methods of enacting tariff laws; and when the Roosevelt administration came into power and Secretary Hull became the head of the State Department, recognizing the impossibility of getting a fair, economic tariff law by those methods, he proposed the Reciprocal Trade Agreements Act, which was enacted in 1934.

I should like to call the attention of the Senate to what happened under that act. Following the enactment of that law in 1934, many trade agreements were entered into under the jurisdiction of the President and the Secretary of State, in accordance with the law. A comparison of the annual average of our international commerce for the two years 1938 and 1939—and they were prewar years, let us remember—and our annual average of international commerce for the two years 1934 and 1935, 1934 being the year in which the Trade Agreements Act was passed, and 1935 being the following year, shows that for the years 1938 and 1939 United States exports to nations with which we had trade agreements increased 63 per cent; in other words, in 1938 and 1939 we shipped to other nations which had trade agreements with us 63 per cent more of our goods than we did in the corresponding period 1934-35; but our exports to non-trade-agreement nations increased by only 32 per cent during the same period. In other words, during 1938 and 1939 under the trade-agreements program our exports to other countries—thus giving labor to American working men and profits to American capital—increased 63 per cent, or nearly two-thirds, whereas our exports to the nations with which we had no trade agreements increased only 32 per cent, or approximately only one-third. For the same period, United States imports from trade-agreement countries increased by 27 per cent. So it appears that while we were increasing by 63 per cent our exports to nations with which we had trade agreements, we were increasing our imports from those countries by only 27 per cent, which could not possibly harm American industry; and we were increasing our imports from non-trade-agreement nations by only 12½ per cent. I give those figures for those two corresponding periods of two years each because they are typical and present a fair cross section of our trade with trade-agreement nations and with nations without trade agreements with us, all of it being in a time of peace, and not in a period of stimulation due to war.

Of course, all of us know the chaos which existed all over the world when World War II ended. We know the devastation which had come about in all the world. We know how the war destroyed cities, industries, and economies, and actually destroyed the morale of the people of the world. It was then that we ourselves took the initiative in bringing about the enactment of legislation and the consummation of international policies which would revive trade and thereby revive employment and thereby revive economic stability and thereby also revive political stability, because, as all of us know, it is impossible to have political stability if there is no economic stability; and that is as much true of the United States as it is of any other country in the world. Whenever we have had economic depression and disaster, whenever we have had low employment and low business, that very economic condition has determined the political complexion of our country, as was evidenced in 1932 when, largely due to the economic collapse of

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our entire economy and our entire industrial system, the then candidate for President of the United States, Mr. Roosevelt, received an overwhelming majority, because of the economic conditions which prevailed in the country, and which had prevailed for nearly four years.

So we initiated all these movements. It was the United States of America, our government, representing our people, that initiated the conference at Dumbarton Oaks that ultimately resulted in the conference at San Francisco which wrote the Charter of the United Nations; and in that Charter of the United Nations we not only dealt with political conditions and political cooperation, but we set up a Social and Economic Council to deal with social and economic problems in all the nations that were members of the United Nations. That was a movement initiated on our part, and it was consummated by the signatures of the representatives of nearly all the nations of the world.

We also initiated the conferences which took place at Bretton Woods, resulting in the establishment of the International Bank for Reconstruction and Development and the International Monetary Fund for the stabilization of currencies—all of which was an economic movement in the direction of international stabilization, international trade, and international cooperation to bring about the production of goods which might finally reach markets and thereby increase the employment of men to turn out those goods, because men cannot be employed in industries unless the products of those industries find a market.

So the question of employment and economic recovery and the question of profits on invested capital are involved in this international movement which we ourselves initiated in all the various organizations and set-ups of which we have been a part.

Then, of course, we know that it was our government, representing our people, without regard to politics—and I am happy to say that in all these things there has been political cooperation here in the United States no less than cooperation between the heads of governments—that took the first steps leading to the United Nations. Without regard to politics, we endorsed the United Nations, and we rejoiced at its consummation; and the United Nations Charter was adopted by the Senate with only two dissenting votes, as I recall, and without regard to politics.

Likewise, without regard to politics we entered into and consummated the agreements at Dumbarton Oaks and Bretton Woods. Following that, we also initiated the Economic Conference at London, which proceeded later at Paris, and then at Geneva, and finally in Havana, designed to bring about an international trade organization that would seek in some way to level off the rough barriers, the rough edges which formed obstructions to trade and employment and profits and to economic political stability.

Let us see what we have done about that. We have not yet passed upon the International Trade Organization, because it has not reached us, and will not reach us for some time.

Mr. President, we have, as I said, initiated all these programs for international cooperation economically and in matters of trade. Then a year ago we initiated through our Secretary of State delivering what was then regarded by some as a mere casual commencement address at Harvard University, the program for economic cooperation on our part to help restore the devastated economies and morale of Europe. We know the history of that program. General Marshall said, and wisely said, that we could not be expected to pour money indefinitely into a relief program, that before we would be justified in doing much more, if any more, the nations of Europe must get together and take account of their own condition, take stock of their own possibilities, to see how much they could help themselves, and help one another, and when they had done that, then we would be in a position to know what we would have to do or could do under the circumstances.

All those steps were taken, at our invitation and at our suggestion. The result was the enactment of what is commonly called E.R.P. or the Marshall Plan, or the economic cooperation act, by whatever name it may be called; it makes no difference. Having in mind what we had done and what they had done, we set forth certain stipulations in the act of Congress. We required them first to make agree-

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ments one with another. We required them to make agreements with the United States before they could receive this assistance. The agreements they make one with another, which we require in the law before we will agree to give them any relief or any assistance, are that they shall cooperate to produce things within their own boundaries and cooperate to find markets for them beyond their own boundaries when they have been produced, that every one of those 16 countries shall level off barriers to trade and that not only shall they do that with respect to themselves, but they shall make agreements and efforts also with other nations likewise to level off and reduce the barriers between the respective countries in the matter of trade, so that they may find a market for what they produce.

How foolish it would be for us to give any one of those countries money or loan them money in order to establish factories unless there were a fair prospect that what the factories produced could find a market in some other country. Would it not be a silly performance on our part to set up a factory in any country merely to see it produce goods without any possibility of a market? Therefore we require them in advance, and it is a part of the law which Senators can read for themselves and with which they are all familiar, that as a condition precedent they are to make agreements among themselves to stimulate production within themselves and to stimulate trade among themselves, which means the leveling off of carriers.

As a part of that, as a result of it, the organization of the customs union by Holland, Belgium, and Luxemburg, known as Benelux, has already been agreed to and is in effect. Subsequently an agreement by those countries and Great Britain and France has been entered into. All these things have been at our invitation, by our initiation, by our suggestion, and even later by our very requirement that before we will aid them they will do all they can to produce a revival of trade and a revival of employment and a revival of the economic foundations of liberty and political stability in all the countries which are involved in the Marshall Plan program.

Mr. President, in spite of that which has been done at our suggestion and on our initiative, after leading these nations up the hill, after meetings in London and in Paris and in Geneva and in Havana, and through our influence and our persuasion, having led these nations up to the top of the hill in the international trade revival, we here are asked to march down the bill at least two-thirds of the way, leaving them up there where we have led them. I am unwilling to do that, and, because I am unwilling to do it, Mr. President, I shall not be satisfied with a one-year extension of this act.

I shall offer an amendment to extend the act three years without limitation or restriction. If that is defeated, I may offer an amendment providing a two-year extension. If that is defeated, or even if I do not offer the two-year amendment, I shall offer a one-year amendment, so that the Senate may pass upon the question whether it desires a continuation of the program without restriction and without delay and without requiring the President of the United States to wait around for the pleasure or the whim of a bipartisan Tariff Commission before he can even initiate negotiations with any other country in the world. And that is what this proposal is. He cannot even start to negotiate with any other nation until he has submitted to the Tariff Commission the list of the things that might be the subject of any possible negotiation, and then he must await their action before he can do anything further.

In my judgment, if this amendment, notwithstanding its distinguished sponsorship, shall be adopted by the Congress, there will be no more trade agreements entered into within the next year under it, because it will be physically and I believe intellectually impossible for the Tariff Commission, being a bipartisan board made up of three Democrats and three Republicans, even if it did not divide on party lines, to make all the investigations necessary to advise the President with respect to it so that another agreement might be made before the year expires.

Therefore I think the adoption of this proposal is the death-knell of the trade agreements program and anything that may be done under it.

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